

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**Financial Report
with Supplemental Information
Prepared in Accordance with GASB 34**

June 30, 2007

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INDEPENDENT AUDITOR'S REPORT

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

Board of Education
Watersmeet Township School District
P.O. Box 217
Watersmeet, Michigan 49969

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Watersmeet Township School District**, as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

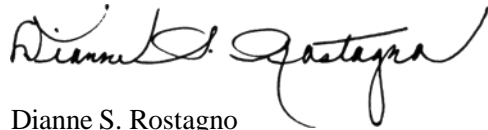
We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Education, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Watersmeet Township School District** at June 30, 2007, and the respective changes in financial position thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 15, 2007, on our consideration of the **Watersmeet Township School District's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the report in considering the results of our audit.

The administration's discussion and analysis and budgetary comparison information on pages 8 through 19 are not a required part of the basic financial statements but are supplemental information required by the *Governmental Accounting Standards Board* and by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of the inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinions on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Watersmeet Township School District's** basic financial statements. The introductory section and the combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the **Watersmeet Township School District**, Watersmeet, Michigan. The combining and individual non-major fund financial statements and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Dianne S. Rostagno". The signature is fluid and cursive, with a large, stylized "R" and "S".

Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

October 15, 2007

ADMINISTRATION'S DISCUSSION AND ANALYSIS

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969**

The **Watersmeet Township School District**, is a K-12 school district located in Gogebic County, Michigan.

The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the **Watersmeet Township School District's** discussion and analysis of the financial results for the fiscal year ended June 30, 2007.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual". In the State of Michigan, the District's major instructional and non-instructional support activities are reported in the General Fund. Additional activities are reported in the relevant funds, including Debt Service, Capital Projects, and the School Service Funds, which are comprised of Food Service, Athletics, and Nimrod Mania Funds.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term debt obligations are recorded as expenditures. Future years' debt obligations are not recorded.

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
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District-wide Financial Statements

The *District-wide Financial Statements* are full accrual basis statements. They report all of the District's assets and liabilities, both short and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Service Fund solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets on the *District-wide Financial Statements*.

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity and scholarship funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Summary of Net Assets:

The following summarizes the comparative net assets at fiscal years ended June 30, 2007 and June 30, 2006:

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969**

Summary of Net Assets: (Continued)

NET ASSETS SUMMARY

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
<u>Assets</u>		
Current Assets	\$ 1183219	\$ 1309821
Capital Assets	8460877	8420257
Less: Accumulated Depreciation	<u>(1298664)</u>	<u>(1096729)</u>
Total Assets	8345432	8633349
<u>Liabilities</u>		
Current Liabilities	582059	587890
Long-term Liabilities	<u>6610307</u>	<u>6722875</u>
Total Liabilities	7192366	7310765
Net Assets		
Invested in Capital Assets, Net of Related Debt	332213	416862
Reserved for Food Service	30097	20487
Reserved for Debt Service	113106	131972
Reserved for Capital Projects	74863	95977
Reserved for Special Projects	74804	130179
Reserved for Athletics	5329	4879
Unreserved and Undesignated	<u>522654</u>	<u>522228</u>
Total Net Assets	\$ 1153066	\$ 1322584

WATERSMEET TOWNSHIP SCHOOL DISTRICT

N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969

Analysis of Financial Position

During fiscal year ended June 30, 2007, the District's net assets decreased by \$169,518. A few of the significant factors affecting net assets during the year are discussed below:

A. General Fund Operations

The District's revenues from General Fund operations exceeded expenditures by \$69,371. General Fund revenues increased by \$20,170 from the last fiscal year, while General Fund expenditures increased by \$112,311 from the prior year.

B. Debt, Principal Payments

The District made principal payments on bonded, long-term debt obligations that reduced the amount of the District's long-term liabilities as follows:

	Principal Balance <u>June 30, 2006</u>	<u>Additions</u>	Principal Payments <u>Applied</u>	Principal Balance <u>June 30, 2007</u>
2002 Building & Site Bonds	\$ 6560000	\$ 0	\$ 5530000	\$ 1030000
2003 Energy Conservation Improvement Bonds	346667	0	26667	320000
2006 Refunding Bonds	0	5480000	0	5480000
Long-Term Employee Benefits	<u>92478</u>	<u>1096</u>	<u>16685</u>	<u>76889</u>
Totals	\$ 6999145	\$ 5481096	\$ 5573352	\$ 6906889

WATERSMEET TOWNSHIP SCHOOL DISTRICT

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C. Net Investment in Capital Assets

The District's net investment in capital assets is as follows:

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
Capital Assets	\$ 8420256	\$ 40621	\$ -0-	\$ 8460877
Less: Accumulated Depreciation	<u>(1096730)</u>	<u>(201934)</u>	<u>-0-</u>	<u>(1298664)</u>
Net Investment in Capital Assets	\$ 7323526	\$ (161313)	\$ -0-	\$ 7162213

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969**

Results of Operations:

For the fiscal years ended June 30, 2007 and June 30, 2006, the comparative District-wide results of operations were as follows:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
<u>Revenues</u>		
<i>General Revenues</i>		
Property taxes, levied for general operations	\$ 1698251	\$ 1625086
Property taxes, levied for debt service	521654	491914
Penalties and interest on taxes	11563	10249
Other local taxes	21171	66223
State Aid, Unrestricted	165758	286261
Schools and Roads grant	80905	97489
Interest and Investment Earnings	72949	50550
Other general revenues	<u>74685</u>	<u>89767</u>
<i>Total General Revenues</i>	\$ 2646936	\$ 2717539
<i>Operating Grants</i>		
Federal	1102254	947999
State of Michigan	150952	186408
Other operating grants	<u>2160</u>	<u>725</u>
<i>Total Operating Grants</i>	1255366	1135132
<i>Capital Grants</i>		
Other	86582	125000
<i>Charges for Services</i>		
Food Service	28976	26880
Athletics	11890	43524
Nimrod Mania	<u>65523</u>	<u>86599</u>
<i>Total Charges for Services</i>	106389	157003
Total Revenues	\$ 4095273	\$ 4134674

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969**

Results of Operations: (Continued)

<u>Expenses</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Instruction	\$ 2097400	\$ 2082133
Support Services	1071335	1070385
Food Services	183955	165111
Athletics	73555	91883
Nimrod Mania	6977	60756
Interest on long-term debt	343087	315005
Depreciation (Unallocated)	201934	211798
Other Expenses	<u>286548</u>	<u>502</u>
Total Expenses	4264791	3997573
INCREASE IN NET ASSETS	(169518)	137101
BEGINNING NET ASSETS	1322584	1182816
ADJUST OPENING BALANCES	<u>0</u>	<u>2667</u>
ENDING NET ASSETS	\$ 1153066	\$ 1322584

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance.
- b. Student Enrollment - Blended at 80 percent of current year's fall count and 20 percent of prior year's winter count.
- c. The District's non-homestead levy.

Per Student, Foundation Allowance

Annually, the State of Michigan establishes the per student foundation allowance. The **Watersmeet Township School District's** foundation allowance was \$ 8,235 per student for the 2006-2007 school year.

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
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Student Enrollment

The District's pupil enrollment for state aid membership for the 2006-2007 fiscal year was 236.75. The District's enrollment increased slightly from the prior year's student count. The following summarizes the state aid membership (student enrollments) for the past five years:

	<u>Student FTE</u>
2006-2007	236.75
2005-2006	253.04
2004-2006	237.60
2003-2004	224.92
2002-2003	219.45

2. Property Taxes Levied for General Operations (General Fund Non-Homestead)

The District levies 17.3898 mills of property taxes for operations (General Fund) on non-homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase, or five percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2006-2007 fiscal year was \$ 1,698,251. The non-homestead property tax levy increased by approximately 5 percent over the prior year.

The following summarizes the District's non-homestead property tax levy for the past five years:

	<u>Non-Homestead Tax Levy</u>	<u>Percent Increase From Prior Year</u>
2006-2007	\$ 1,698,251	5.00
2005-2006	1,625,086	9.00
2004-2006	1,485,101	13.70
2003-2004	1,306,175	4.00
2002-2003	1,251,879	5.00

Average increase over last five years: 7.34%

3. Debt Service Fund Levy

The District's debt service fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties - both homestead and non-homestead. For the fiscal year ended June 30, 2007, the District's debt millage levy was 4.0000 mills, which generated revenue of \$521,654.

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969**

4. Food Sales to Students and Adults (School Lunch Program)

The District's food sales to students increased slightly from the prior school year. Since it had previously been determined that the state school lunch funding (31D) had been overpaid in past fiscal years, a negative adjustment in this funding was made by the State in the amount of \$15,317 for the 2006-07 fiscal year. The original amount of overpayment was \$76,583. At the close of the 2006-2007 fiscal year, a total of \$45,950 had been applied to that overpayment, and at June 30, 2007, the balance due to the State of Michigan was \$30,633. This liability is reflected on the Food Service Balance Sheet.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in Required Supplemental Information of these financial statements.

Changes to the General Fund and Food Service original budgets were as follows:

	<u>Revenue Original Budget</u>	<u>Revenue Final Budget</u>	<u>Revenue Final Actual</u>	<u>Revenue Variance Actual vs Original Budget</u>	<u>Revenue Variance Actual vs Final Budget</u>
General Fund	\$ 3464165	\$ 3224704	\$ 3264193	\$ (199972)	\$ 39489
Food Service	102125	112305	117731	15606	5426

	<u>Expenditures Original Budget</u>	<u>Expenditures Final Budget</u>	<u>Expenditures Final Actual</u>	<u>Expenditures Variance Actual vs Original Budget</u>	<u>Expenditures Variance Actual vs Final Budget</u>
General Fund	\$ 3269790	\$ 3227635	\$ 3194822	\$ 74968	\$ 32813
Food Service	63100	175763	183955	(120855)	(8192)

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969**

General Fund Budgetary Highlights (Continued)

Budgeted revenues were decreased by \$ 239,461, a decrease of approximately 7 percent from the original budget. Actual revenues came in \$ 39,489 more than final budgetary amounts.

Budgeted expenditures were decreased by \$ 42,155 from the original budgeted amounts, representing an approximate 1% decrease. Actual expenditures fell short of the final appropriated amounts by \$ 32,813.

Food Service Budgetary Highlights

Budgeted revenues were increased by \$10,180 from the original budget. Actual revenues exceeded both the original and the final amended budgets, coming in at \$117,731.

Budgeted expenditures were increased by \$112,663, as the original Food Service budget had no provision for salaries or benefits. Actual expenditures were \$183,955, which exceeded the final amended budget by \$ 8,192.

2006-2007 School Year Highlights for Watersmeet High School

Watersmeet Township School District is very proud of its 2006-2007 accomplishments:

- The most rewarding accomplishment of the 2006-2007 school year was the reporting of Ed Yes! and making AYP with a “B” grade.
- The District Administrator spent a week in Denver, Colorado with the Bully Proofing coordinator to further the District’s education and implementation for the success of the program.
- Continuation of the “Brite-Side” after school program each Tuesday and Thursday from 3:10 p.m. to 4:30 p.m. and offered new programming.
- With monitoring and tracking the success of our Reading First Grant, our scores in grade K-3 have skyrocketed. This program is truly a success due to our very attentive teaching staff and Reading First coach.
- The District (not through grant funding) was able to purchase the Harcourt Reading First Series for our 4th grade students.
- The District released 25 students into the community, which is the largest class size in the history of the Watersmeet School.

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969**

Goals/Events for 2007-2008

- Continue to improve upon the Ed Yes! criteria, MEAP scores, and MME scores by holding monthly departmental meetings with K-12 instructors to align curriculum for success in addressing the High School Content Expectations.
- The District (not through grant funding) will attempt to purchase the Harcourt Reading First Series for our 5th grade students. The students are reaping the rewards of this program and empowering them to be better students.
- It is a goal to allow every parent access to their student's grades, attendance and instructors, by providing each parent with a user name and password to the Power School program.
- Continue to offer parent/teacher conferences at a convenient location for better attendance. This has worked in the past, and will continue to keep this line of communication open.
- Broaden the Native American studies curriculum to include a high school Ojibwe Language class and include grades 3,4,5,& 6 to the Native Studies class, which is already in place for grades 9 through 12.
- Formation of a Nimrod Education Foundation to house the proceeds from our wares, due to the eight-part documentary series being aired on the Sundance channel on November 26, December 3,10,&17, 2007.

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969**

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact:

Watersmeet Township School District
School Business Office
P.O. Box 217
Watersmeet, Michigan 49969

BASIC FINANCIAL STATEMENTS

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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STATEMENT OF NET ASSETS

JUNE 30, 2007

	<u>Governmental Activities</u>
<u>ASSETS</u>	
<i>Current Assets</i>	
Cash and Cash Equivalents (Note 3)	\$ 1,095,061
Prepaid Expenses	10,985
Receivables	
Taxes	9,976
Accounts Receivable	7,829
Due from Other Governmental Units	21,893
Inventories	<u>37,475</u>
<i>Total Current Assets</i>	\$ 1,183,219
<i>Noncurrent Assets</i>	
Capital Assets (Note 5)	8,460,877
Less: Accumulated Depreciation (Note 5)	<u>(1,298,664)</u>
<i>Total Noncurrent Assets</i>	7,162,213
TOTAL ASSETS	\$ 8,345,432
<u>LIABILITIES</u>	
<i>Current Liabilities</i>	
Accounts Payable	-
Accrued Salaries and Benefits	254,502
Accrued Sales Tax	342
Deferred Revenue	-
Due to Other Governmental Units	30,633
Short-term Employee Benefits Payable	19,915
Bonds Payable, Due within one year (Note 8)	<u>276,667</u>
<i>Total Current Liabilities</i>	\$ 582,059
<i>Noncurrent Liabilities</i>	
Bonds Payable (Note 8)	6,553,333
Long-term Employee Benefits Payable	<u>56,974</u>
<i>Total Noncurrent Liabilities</i>	6,610,307
TOTAL LIABILITIES	\$ 7,192,366
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	332,213
Reserved for Food Service	30,097
Reserved for Debt Service	113,106
Reserved for Capital Projects	74,863
Reserved for Special Programs	74,804
Reserved for Athletics	5,329
Unreserved, Undesignated	<u>522,654</u>
TOTAL NET ASSETS	<u>\$ 1,153,066</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2007

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>			<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Capital Grants</u>	<u>Net(Expense) Revenue and Changes in Net Assets</u>
Primary Government -					
Government Activities:					
Instruction	\$ 2,097,400		\$ 1,126,457		\$ (970,943)
Support Services	1,071,335		39,154	86,582	(945,599)
Food Services	183,955	28,976	87,595		(67,384)
Athletics	73,555	11,890	2,000		(59,665)
Nimrod Mania Special Projects	6,977		160		(6,817)
Interest on Long-Term Debt	343,087				(343,087)
Depreciation (Unallocated)	201,934				(201,934)
Other Expenses	<u>286,548</u>	<u>65,523</u>			<u>(221,025)</u>
Total Governmental Activities	\$ 4,264,791	\$ 106,389	\$ 1,255,366	\$ 86,582	\$ (2,816,454)
General Revenues:					
Taxes:					
Property taxes levied for general operations					1,698,251
Property taxes levied for debt service					521,654
Penalties/interest on taxes					11,563
Other local taxes					21,171
State Aid, Unrestricted					165,758
Schools and Roads Grant					80,905
Interest and Investment Earnings					72,949
Other					<u>74,685</u>
Total General Revenues					2,646,936
Change in Net Assets					(169,518)
Net Assets - Beginning of year					1,322,584
Net Assets - End of year					<u>\$ 1,153,066</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2007

	<u>General Fund</u>	<u>Food Service Fund</u>	<u>Debt Retirement Building & Site Fund</u>
<u>ASSETS</u>			
Cash and Investments (Note 3)	\$ 829,268	\$ 12,941	\$ 109,808
Prepaid Expenses	10,985	-	-
Receivables:			
Taxes	6,678	-	3,298
Accounts Receivable	-	475	-
Due from Other Funds	29,158	42,934	-
Due from Other Governmental Units	20,676	1,217	-
Inventories	304	3,163	-
Total Assets	<u>\$ 897,069</u>	<u>\$ 60,730</u>	<u>\$ 113,106</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Accounts Payable	-	-	-
Accrued Salaries and Benefits	254,502	-	-
Accrued Sales Tax	-	-	-
Deferred Revenue	-	-	-
Due to Other Governmental Units	-	30,633	-
Due to Other Funds	42,934	-	-
Total Liabilities	297,436	30,633	-
<u>Fund Balances</u>			
Unreserved and undesignated	599,633	-	-
Reserved for Food Service	-	30,097	-
Reserved for Debt Service	-	-	113,106
Reserved for Special Programs	-	-	-
Reserved for Capital Projects	-	-	-
Reserved for Athletics	-	-	-
Total Fund Balances	<u>599,633</u>	<u>30,097</u>	<u>113,106</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 897,069</u>	<u>\$ 60,730</u>	<u>\$ 113,106</u>

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2007

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 143,044	\$ 1,095,061
-	10,985
-	9,976
7,354	7,829
-	72,092
-	21,893
34,008	37,475
\$ 184,406	\$ 1,255,311
-	-
-	254,502
342	342
-	-
-	30,633
29,158	72,092
29,500	357,569
-	599,633
-	30,097
-	113,106
74,804	74,804
74,863	74,863
5,239	5,239
154,906	897,742
\$ 184,406	\$ 1,255,311

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS
GOVERNMENTAL FUNDS**

JUNE 30, 2007

Total Fund Balances - Governmental Funds	\$ 897,742
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities
are not financial resources and are not
reported in the funds.

The cost of capital assets is:	8,460,877
Accumulated depreciation is:	(1,298,664)

Long term liabilities are not due and payable
in the current period and are not reported
in the funds:

Bonds Payable	(6,830,000)
Compensated Absences/Other Benefits	(76,889)

Other long term assets not available to pay
current period expenditures therefore
deferred in the funds

-

Total Net Assets - Governmental Activities	<u><u>\$ 1,153,066</u></u>
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The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS**

YEAR ENDED JUNE 30, 2007

	<u>General Fund</u>	<u>Food Service Fund</u>
<u>REVENUE</u>		
Local Revenue	\$ 1,851,919	\$ 30,136
State Revenue	304,068	12,642
Federal Revenue	1,108,206	74,953
Interdistrict and Other Revenue		
Miscellaneous	-	-
	<hr/>	<hr/>
TOTAL REVENUE	\$ 3,264,193	\$ 117,731
<u>EXPENDITURES</u>		
Current:		
Instruction	2,116,966	-
Support Services	1,077,856	
Food Services		183,955
Athletics		
Nimrod Mania Special Projects	-	-
Debt Service		
Principal	-	-
Interest and Other		
Capital Outlay	-	-
Other Expenditures	-	-
	<hr/>	<hr/>
TOTAL EXPENDITURES	\$ 3,194,822	\$ 183,955
Excess (Deficiency) of Revenues Over Expenditures	69,371	(66,224)
<u>Other Financing Sources (Uses)</u>		
Bond Proceeds	-	-
Bond Issuance Costs		
Unrealized Market Gain (Loss) on Investments		
Operating transfers in	78,181	75,834
Operating transfers out	(162,626)	-
	<hr/>	<hr/>
Total Other Financing Sources (Uses)	(84,445)	75,834
Net Change in Fund Balances	(15,074)	9,610
FUND BALANCE - BEGINNING OF YEAR	614,707	20,487
	<hr/>	<hr/>
FUND BALANCE - END OF YEAR	\$ 599,633	\$ 30,097
	<hr/>	<hr/>

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

YEAR ENDED JUNE 30, 2007

Debt Retirement Building & Site Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<u> </u>	<u> </u>	<u> </u>
\$ 544,221	\$ 169,128	\$ 2,595,404
-	-	316,710
-	-	1,183,159
-	-	-
<u>-</u>	<u>-</u>	<u>-</u>
\$ 544,221	\$ 169,128	\$ 4,095,273
-	-	2,116,966
		1,077,856
		183,955
	73,555	73,555
-	6,977	6,977
5,530,000	26,667	5,556,667
343,087		343,087
	30,121	30,121
<u>-</u>	<u>116,548</u>	<u>116,548</u>
\$ 5,873,087	\$ 253,868	\$ 9,505,732
(5,328,866)	(84,740)	-
		(5,410,459)
5,480,000	-	5,480,000
(170,000)		(170,000)
-		-
-	86,792	240,807
<u>-</u>	<u>(78,181)</u>	<u>(240,807)</u>
5,310,000	8,611	5,310,000
(18,866)	(76,129)	(100,459)
<u>131,972</u>	<u>231,035</u>	<u>998,201</u>
<u><u>\$ 113,106</u></u>	<u><u>\$ 154,906</u></u>	<u><u>\$ 897,742</u></u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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GOVERNMENTAL FUNDS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ (100,459)
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Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures; in
the statement of activities, these costs are allocated over their
estimated useful lives as depreciation.

Depreciation Expense	(201,934)
Capital Outlay	40,621

Revenue reported in the statement of activities that does not provide
current financial resources and are not reported as revenue
in the governmental funds

-

Accrued interest is recorded in the statement of activities when
incurred; it is not reported in governmental funds until paid

-

Bond proceeds are reported as financing sources in governmental
funds and thus contribute to the change in fund balance. In the
statement of net assets, however, issuing debt increases long-term
liabilities and does not affect the statement of activities.

(5,480,000)

Repayment of bond principal is an expenditure in the governmental
funds, but not in the statement of activities (where it reduces
long term debt)

5,556,667

(Increases) decreases long-term employee benefits are reported as
expenditures when financial resources are used in the governmental
funds in accordance with GASB Interpretation No. 6

15,590

Rounding difference

(3)

Change in Net Assets of Governmental Activities

\$ (169,518)

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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FIDUCIARY FUND

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2007

ASSETS

Cash and Cash Equivalents	<u>\$ 65,408</u>
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TOTAL ASSETS	\$ 65,408
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LIABILITIES

Due to Student Groups and Other	<u>25,095</u>
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TOTAL LIABILITIES	\$ 25,095
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NET ASSETS

Reserved for Scholarships	<u>40,313</u>
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TOTAL NET ASSETS	<u>\$ 40,313</u>
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The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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FIDUCIARY FUND

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

YEAR ENDED JUNE 30, 2007

	PRIVATE-PURPOSE TRUST FUND
<u>ADDITIONS</u>	
Gifts and Contributions	\$ 460
Investment Earnings	<u>1,614</u>
TOTAL ADDITIONS	\$ 2,074
<u>DEDUCTIONS</u>	
Scholarships Awarded	<u>1,150</u>
TOTAL DEDUCTIONS	\$ 1,150
CHANGE IN NET ASSETS	924
NET ASSETS - BEGINNING OF YEAR	<u>39,389</u>
NET ASSETS - END OF YEAR	<u><u>\$ 40,313</u></u>

The notes to the financial statements are an integral part of this report.

NOTES TO THE FINANCIAL STATEMENTS

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the **Watersmeet Township School District** have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant accounting policies of the School District:

The Financial Reporting Entity

The Watersmeet Township Board of Education ("Board") is the basic level of government which has financial accountability and control over all activities related to the public school education in the Township of Watersmeet. The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the District does not contain any component units.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Financial Reporting Entity (Continued)

In addition, there are no component units as defined in Governmental Accounting Standards Board Statement 14 which are included in the District's reporting entity.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the District's district-wide activities are considered governmental activities.

The District generally uses restricted assets first for expenses incurred for which both restricted and unrestricted assets are available. The District may defer the use of restricted assets based on a review of the specific transaction.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**District-wide and Fund Financial Statements
(Continued)**

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function.

Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation**

District-wide Statements

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the district-wide financial statements.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Fund-based Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is measurable and available. Revenue is considered to be available if it is collected within the current period or soon thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Fund-based Statements (Continued)

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following governmental funds:

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Fund-based Statements (Continued)

General Fund

The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds.

All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

For district-wide reporting purposes, the General Fund is always a major fund.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Fund-based Statements (Continued)

Special Revenue Funds

These funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust, or major capital projects) that are legally restricted to expenditures for specified purposes. The District uses the Special Revenue Funds to account for its Food Service, Athletic, and Nimrod Mania Funds.

For district-wide reporting purposes, the Food Service Fund is a major fund. The Athletic Fund and Nimrod Mania Fund are both non-major funds.

Debt Retirement Funds

These funds are used to account for the accumulated resources for, and the payment of, general long-term principal, interest, and related costs.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Fund-based Statements (Continued)

Debt Retirement Funds (Continued)

On the district-wide financial statements, the Debt Service Energy Conservation Improvement Bond Fund is a non-major fund; the Debt Service Building and Site is a major fund.

Capital Projects Funds

These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities or other capital assets, including equipment.

The District reported three capital projects funds during the fiscal year ended June 30, 2007. All of the District's capital projects funds are non-major funds for district-wide reporting purposes.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Fund-based Statements (Continued)

Fiduciary Funds

These funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the district-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District presently maintains a Student Activities Fund (Agency Fund) and the Scholarship Fund (Private-Purpose Trust Fund).

Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds". Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds".

Property Taxes

Property taxes are levied on July 01 and payable by September 15 each year. They are declared delinquent on March 01 of the following year. Property taxes are recognized when they become available.

The County of Gogebic purchases all delinquent real property taxes during the second quarter of each year, resulting in total collection of real property taxes each year.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Property Taxes (Continued)

Delinquent personal property taxes are recorded as receivable if considered to be collectible within 60 days after year end. For the year ended June 30, the School District levied 17.3898 operating mills (non-homestead only), and 4.0 mills for building and site bonded debt on its taxable valuation of \$ 130,416,954.

State Revenue

The State of Michigan uses a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and School Code of Michigan.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

State Revenue (Continued)

The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts.

The State portion of the foundation is provided primarily by a State education property tax millage of 6.00 mills (on both homestead and non-homestead property) and an allocated portion of the State sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes levied at a rate of up to 18 mills.

The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October 2006 through August 2007.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

State Revenue (Continued)

The School District also receives revenue from the State to administer certain categorical education programs.

State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

State, general, and categorical aids are recognized as revenue in the entitlement year. Federal aids for reimbursable programs are recognized as revenues in the year related program expenditures are incurred. Aids received prior to meeting revenue recognition criteria are recorded as deferred revenues.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Inventories and Prepaid Items

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture commodities inventory received by the Food Service Fund is recorded as both revenue and expense in the year received. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the district-wide financial statements.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Capital Assets (Continued)

Capital assets are defined by the government as assets with an initial individual cost of more than \$ 1,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions.....20 - 50 years

Buses and other vehicles.....5- 10 years

Furniture and Other

Equipment.....5 - 20 years

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Contingent Liabilities

Employee Compensation and Related Liabilities

Payroll and related withholding and expenses which have been earned by School District employees but not paid as of June 30 are recorded as a liability on the School District's balance sheet.

Unemployment

The School District is a reimbursing employer to the Michigan Employment Security Administration and as such is responsible to pay the Administration for those benefits paid and charged to its account. As of June 30, appropriate liabilities have been recorded for all claims paid by the Administration. However, no provision has been made for future payments that might result from claims in process or un-filed.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Contingent Liabilities (Continued)

Compensated Absences

Sick Leave

Sick Leave can accrue for both instructional and non-instructional employees of the School District.

The various employment contracts and agreements covering the School District's personnel allow for the accumulation of earned sick leave as defined. Sick leave accumulates and vests only upon retirement. Employees who leave for any other reason forfeit this benefit. The details of each contract/agreement, as they relate to the accumulation of sick leave benefits, are summarized below:

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Contingent Liabilities (Continued)

Compensated Absences

Sick Leave (Continued)

Instructional/Administration

Teachers and administrators employed in the District for a minimum of 10 years shall receive, upon retirement, compensation for unused sick leave up to a maximum of 180 days, calculated at .09% of the highest salary x total unused sick days.

Support Staff

Members of the support staff accumulate sick leave at the rate of ½ of a prorated paid leave day for each pay period worked or on paid leave up to a maximum of 160 days.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Contingent Liabilities (Continued)

Compensated Absences

Sick Leave (Continued)

Support Staff (Continued)

A minimum of 10 years employment is required to qualify for termination payment, which is calculated at \$2.00 per hour for each regularly scheduled hour per day for up to the maximum total days accumulated.

Vested sick pay is recognized as a liability of the School District along with the associated costs of FICA and retirement.

At June 30, the School District's liability for accumulated sick leave and the related FICA and retirement costs is approximately \$ 24,496.07.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Non-Monetary Transactions

Federal financial assistance received by school districts may include claims for reimbursement on reimbursable meals and milk served, cash in lieu of commodities, USDA donated commodities (both bonus and entitlement), discounts and rebates for the value of USDA donated commodity ingredients contained in processed foods (end products) provided by the state and federal processing program, respectively, and other payments for administrative costs, etc.

The Single Audit Act of 1984, as amended, and OMB Circular A-133 defines federal financial assistance to include both monetary and non-monetary forms of assistance provided by or passed down from a federal agency, such as grants, contracts, loans, loan guarantees, property, etc.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Non-Monetary Transactions (Continued)

On this basis, the District recognizes the USDA value of donated commodities (bonus and non-bonus) received and expended in the amount of \$ 7,895 for entitlement commodities, and bonus commodities of \$ 147.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Long-Term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statements of net assets.

Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond costs, during the current period, when applicable.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Long-Term Obligations (Continued)

Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Fund Equity (Continued)

At June 30, the District had reserved fund balances as follows:

Debt Retirement Fund - Reserved for debt services \$ 113,106.

Capital Projects Fund - Reserved for capital projects \$ 74,863.

Food Services Fund - Reserved for food services \$ 30,097.

Athletic Activity Fund - Reserved for athletics \$ 5,239.

Nimrod Mania Fund - Reserved for special programs \$ 74,804.

Scholarship Fund - Reserved for scholarships \$ 40,313.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level.

State law requires the District to have its budget in place by July 01. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

**Excess of Expenditures Over Appropriations in
Budgetary Funds**

Budget Violations

P.A. 621 of 1978, SECTION 18 (1), as amended, provides a local unit shall not incur expenditures in excess of the amounts appropriated. Contrary to this provision, the total actual 2006-2007 expenditures for the following activities (cost-centers) exceeded the amended budget allocations by a total of \$ 19,596.

<u>ACTIVITY (COST CENTER)</u>	<u>OVER ACTUAL</u>	<u>BUDGET</u>	<u>EXPENDITURES</u>
<u>General Fund</u>			
Fiscal Services	\$ 60163	\$ 59057	\$ 1106
Fund Modifications – Transfer to Athletics	60025	58438	1587
<u>Food Service Fund</u>	183955	175763	8192
<u>Athletic Activity Fund</u>	73555	64844	8711

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

Fund Deficits

At June 30, 2007, the School District had no fund deficit in any fund.

NOTE 3 - DEPOSITS AND INVESTMENTS

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of the federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are comprised of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, Risk Disclosures for the Local Unit's Cash Deposits classifies cash according to three levels of risk.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

These three levels of risk are as follows:

Category 1

Deposits which are insured or collateralized with securities held by the School District or its agent in the School District's name.

Category 2

Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the School District's name.

Category 3

Deposits which are not collateralized or insured.

Based on these three levels of risk, the School District's cash deposits are classified as follows:

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Totals</u>
Cash and Deposits	\$ 267379	\$ -0-	\$ 893090	\$ 1160469

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and cash equivalents	\$ 1095061	\$ 65408	\$ 1160469
Investments	<u>0</u>	<u>0</u>	<u>0</u>
Total	\$ <u>1095061</u>	\$ <u>65408</u>	\$ <u>1160469</u>

The breakdown between deposits and investments for the School District is as follows:

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits (checking and savings accounts, certificates of deposit)	\$	1160224
Investment in securities, mutual funds, and similar vehicles		0
Petty cash/Cash on hand		<u>245</u>
Total	\$	1160469

The deposits of the School District were reflected in the accounts of financial institutions at \$ 1,160,469, of which \$267,379 is covered by federal depository insurance.

Investments are categorized into these categories of credit risk:

Category 1 - Insured or registered, or securities held by the School District or its agent in the School District's name.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the School District's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the School District's name.

At June 30, 2007, the School District's investment balances were categorized as follows:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Investments	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 4 – RECEIVABLES

Receivables as of year-end for the School District's individual major funds and the non-major and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Food Service</u>	<u>Non-major and Other Funds</u>	<u>Debt Service</u>	<u>Total</u>
Receivables:					
Taxes	\$ 6678	\$ -0-	\$ -0-	\$ 3298	\$ 9976
Intergovernmental	20676	1217	-0-	-0-	21893
Other	<u>-0-</u>	<u>475</u>	<u>7354</u>	<u>-0-</u>	<u>7829</u>
Total Receivables	\$ <u>27354</u>	\$ <u>1692</u>	\$ <u>7354</u>	\$ <u>3298</u>	\$ <u>39698</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 4 – RECEIVABLES (CONTINUED)

Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Grant and categorical aid payment not considered available	\$ -0-	\$ -0-
Payments received prior to meeting all eligibility requirements:	<u>-0-</u>	<u>-0-</u>
Total	\$ <u><u>-0-</u></u>	\$ <u><u>-0-</u></u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the School District's governmental activities was as follows:

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 5 – CAPITAL ASSETS (CONTINUED)

	Adjusted Balance July 01 2006	Additions	Disposals and Adjustments	Balance June 30 2007
Assets not being Depreciated				
Land	\$ 42000	\$ -0-	\$ -0-	\$ 42000
Capital assets being Depreciated				
Land Improvements	220821	-0-	-0-	220821
Building and building improvements	7492900	-0-	-0-	7492900
Machinery, Furniture and equipment	<u>664535</u>	<u>40621</u>	<u>-0-</u>	<u>705156</u>
Subtotal	\$ 8378256	\$ 40621	\$ -0-	\$ 8418877
Accumulated Depreciation :				
Land Improvements	47630	10122	-0-	57752
Building and building improvements	\$ 685405	\$ 147555	\$ -0-	\$ 832960

(Continued on page 67)

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 5 – CAPITAL ASSETS (CONTINUED)

(Continued from previous page)

	Adjusted Balance July 01 2006	Additions	Disposals and Adjustments	Balance June 30 2007
Accumulated Depreciation (Continued)				
Machinery, Furniture and equipment	\$ <u>363695</u>	\$ <u>44257</u>	\$ <u>-0-</u>	\$ <u>407952</u>
Subtotal	<u>1096730</u>	<u>201934</u>	<u>-0-</u>	<u>1298664</u>
Net capital assets being depreciated	<u>7281526</u>	<u>(161313)</u>	<u>-0-</u>	<u>7120213</u>
Net capital assets	\$ <u>7323526</u>	\$ <u>(161313)</u>	\$ <u>-0-</u>	\$ <u>7162213</u>

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was not charged to activities as the District considers its assets to impact multiple activities and allocation is not practical.

NOTE 6 – INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of inter-fund balances is as follows:

Do To/From Other Funds:

The amounts of inter-fund receivables and payables as of June 30, 2007 were as follows:

	Inter-fund Receivable	Inter-fund Payable
General Fund	\$ 29158	\$ 42934
Food Service	42934	-0-
Nimrod Mania	<u>-0-</u>	<u>29158</u>
Totals	\$ <u>72092</u>	\$ <u>72092</u>

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 6 – INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

Do To/From Other Funds: (Continued)

	<u>Inter-fund Receivable</u>	<u>Inter-fund Payable</u>
Summary by fund type:		
Major Funds	\$ 72092	\$ 42934
Non-major Funds	<u>-0-</u>	<u>29158</u>
Totals	\$ <u>72092</u>	\$ <u>72092</u>

The General Fund transfers monies to support the food service activities each year. Nimrod Mania has a payable to the General Fund for un-reimbursed operating costs. These amounts are both expected to clear after year-end.

Operating Transfers

Inter-fund transfers are the result of legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 6 – INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

Operating Transfers (Continued)

During the fiscal year ended June 30, 2007, the District authorized the following transfers:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 78181	\$ 162626
Athletic Fund	60025	-0-
Food Service Fund	75834	-0-
Debt Retirement Fund – Energy Conservation		
Improvement Bonds	26767	-0-
Capital Projects Fund – LVD	<u>-0-</u>	<u>78181</u>
Totals	\$ <u>240807</u>	\$ <u>240807</u>

	<u>Transfers In</u>	<u>Transfers Out</u>
Summary by fund type:		
Major Funds	\$ 154015	\$ 162626
Non-major Funds	<u>86792</u>	<u>78181</u>
Totals	\$ <u>240807</u>	\$ <u>240807</u>

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 6 – INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

Operating Transfers (Continued)

Each year the General Fund transfers funds to the Food Service and Athletic Funds to support their programs, as they are not self-sustaining.

The General Fund also transfers funds to cover the cost of debt payments not provided for with debt service millage.

During the current fiscal year, the Capital Projects transferred funds donated by LVD, which were designated for tutoring and other operational costs.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 6 – INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

Other Financing Sources (Uses)

The transfers of cash between various District funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

NOTE 7 - DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At June 30, 2007, the District's General Fund has no deferred revenue.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 8 – LONG-TERM DEBT

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General Obligation Bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk obligations.

Long-term obligation activity can be summarized as follows:

	Adjusted Balance July 01, 2006	Additions	Deletions	Balance June 30, 2007
Long-Term Employee	\$	\$	\$	\$
Benefits Payable	92479	1096	16686	76889
2002 Building and Site				
Bonds	6560000	-0-	5530000	1030000
2003 Energy Conservation				
Improvement Bonds	346667	-0-	26667	320000
2006 Refunding Bonds	<u>-0-</u>	<u>5480000</u>	<u>-0-</u>	<u>5480000</u>
Totals	\$ <u>6999146</u>	\$ <u>5481096</u>	\$ <u>5573353</u>	\$ <u>6906889</u>

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 8 – LONG-TERM DEBT (CONTINUED)

**2003 Energy Conservation Improvement Bond
(General Obligation-Limited Tax)**

On December 19, 2003, the **Watersmeet Township School District** issued a Qualified Zone Academy Bond to borrow the sum of \$ 400,000 for the purpose of acquiring and constructing energy conservation improvements to the Watersmeet School. The interest rate is (0%). The principal amount of \$ 400,000 matures on December 19, 2018. The School District is required to set aside principal installments of \$ 26,666.67 on December 19 of each year starting in 2004, and continuing until the maturity date.

**2002 School Building and Site Bonds
(General Obligation Unlimited Tax)**

On March 25, 2002, the **Watersmeet Township School District** issued bonds to borrow the sum of \$7,040,000 for the purpose of erecting, furnishing, and equipping an addition to and partially remodeling, refurnishing, and re-equipping the Watersmeet School; acquiring and installing educational technology; constructing and equipping a playground; and acquiring land and developing and improving the site.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 8 – LONG-TERM DEBT (CONTINUED)

**2002 School Building and Site Bonds
(General Obligation Unlimited Tax)
(Continued)**

On November 21, 2006, the District issued refunding bonds, which refunded a portion of the District's outstanding 2002 School Building and Site Bonds.

Interest is payable semi-annually on May 01 and November 01 of each year. Principal is payable on the first day of May.

The remaining obligation of the District on these bonds is as follows:

SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS					
	May 01		November 01		Interest
	Principal	Interest	Interest	Total	Rate
2007	\$	\$	\$ 147948	\$ 147948	4.600%
2008	235000	147948	142543	525491	4.600%
2009	250000	142543	136793	529336	4.600%
2010	265000	136793	130698	532491	4.600%
2011	280000	130698	124222	534920	4.625%
Total	\$ 1030000	\$ 557982	\$ 682204	\$ 2270186	

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 8 – LONG-TERM DEBT (CONTINUED)

2006 REFUNDING BOND

On November 21, 2006, the Watersmeet Township School District issued 2006 Refunding Bonds in the amount of \$5,480,000. The bonds are general obligation bonds of the District, and are payable as to principal and interest from the proceeds of an annual ad valorem tax, levied without limitation as to rate or amount, on all taxable property within the boundaries of the School District. The proceeds of this issue were to be used for the purpose of refunding a portion of the School District's outstanding 2002 School Building and Site Bonds (General Obligation-Unlimited Tax), dated May 01, 2002.

The Bonds are fully qualified for the Michigan School Bond Qualification and Loan Program pursuant to Act 92, Public Acts of Michigan, 2005, as amended, enacted pursuant to Article IX, Section 16 of the Michigan Constitution of 1963. Under the terms of these constitutional and statutory provisions, if for any reason the School District is unable to pay the principal of and interest on the Bonds when due, then the School District shall borrow and the State of Michigan shall lend to it an amount sufficient to enable the School District to make the payment.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 8 – LONG-TERM DEBT (CONTINUED)

2006 REFUNDING BOND (Continued)

The scheduled payments of the principal and interest on the Bonds is as follows:

SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS				
	<u>Principal</u>	<u>Interest Rate</u>	<u>Interest</u>	<u>Total</u>
11/01/2007	\$		\$ 109,518.75	\$ 109,518.75
05/01/2008	15,000.00	3.750%	109,518.75	124,518.75
11/01/2008			109,237.50	109,237.50
05/01/2009	15,000.00	3.750%	109,237.50	124,237.50
11/01/2009			108,956.25	108,956.25
05/01/2010	15,000.00	3.750%	108,956.25	123,956.25
11/01/2010			108,675.00	108,675.00
05/01/2011	20,000.00	3.750%	108,675.00	128,675.00
11/01/2011			108,300.00	108,300.00
05/01/2012	315,000.00	4.000%	108,300.00	423,300.00
11/01/2012			102,000.00	102,000.00
05/01/2013	325,000.00	4.000%	102,000.00	427,000.00
11/01/2013			95,500.00	95,500.00
05/01/2014	340,000.00	4.000%	95,500.00	435,500.00
11/01/2014			88,700.00	88,700.00
05/01/2015	350,000.00	4.000%	88,700.00	438,700.00
11/01/2015			81,700.00	81,700.00

(Continued on page 78)

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 8 – LONG-TERM DEBT (CONTINUED)

2006 REFUNDING BOND (Continued)

SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS				
	<u>Principal</u>	<u>Interest Rate</u>	<u>Interest</u>	<u>Total</u>
05/01/2016	\$ 350,000.00	4.000%	\$ 81,700.00	\$ 431,700.00
11/01/2016			74,700.00	74,700.00
05/01/2017	345,000.00	4.000%	74,700.00	419,700.00
11/01/2017			67,800.00	67,800.00
05/01/2018	345,000.00	4.000%	67,800.00	412,800.00
11/01/2018			60,900.00	60,900.00
05/01/2019	345,000.00	4.000%	60,900.00	405,900.00
11/01/2019			54,000.00	54,000.00
05/01/2020	340,000.00	4.000%	54,000.00	394,000.00
11/01/2020			47,200.00	47,200.00
05/01/2021	340,000.00	4.000%	47,200.00	387,200.00
11/01/2021			40,400.00	40,400.00
05/01/2022	340,000.00	4.000%	40,400.00	380,400.00
11/01/2022			33,600.00	33,600.00
05/01/2023	335,000.00	4.000%	33,600.00	368,600.00
11/01/2023			26,900.00	26,900.00
05/01/2024	335,000.00	4.000%	26,900.00	361,900.00
11/01/2024			20,200.00	20,200.00
05/01/2025	330,000.00	4.000%	20,200.00	350,200.00
11/01/2025			13,600.00	13,600.00
05/01/2026	335,000.00	4.000%	13,600.00	348,600.00
11/01/2026			6,900.00	6,900.00
05/01/2027	<u>345,000.00</u>	4.000%	<u>6,900.00</u>	<u>351,900.00</u>
Total	<u>\$5,480,000.00</u>		<u>\$2,717,575.00</u>	<u>\$8,197,575.00</u>

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 8 – LONG-TERM DEBT (CONTINUED)

Long-Term Employee Benefits

Accrued Long-Term Sick Leave

On June 30, 2007, the District's estimated liability for long-term sick leave, plus the related costs of FICA, Medicare, and retirement was \$ 21,987.25.

Retirement Incentive

At June 30, 2007, the District's liability for Retirement Incentive payable, including related costs of FICA and Medicare was \$ 54,901.50, payable as follows:

2207-08	\$	19,915.25
2008-09		19,915.25
2009-10		9,688.50
2010-11		<u>5,382.50</u>
Total	\$	54,901.50

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 9 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries(workers' compensation), as well as medical benefits provided to employees. The School District maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the School District. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three years.

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM-DEFINED BENEFIT PLAN

The School District contributes to the Michigan Public School Employees' Retirement system (MPERS), a cost-sharing multiple-employer defined benefit pension administered by the Michigan Department of Management and Budget, Office of Retirement Systems.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM-DEFINED BENEFIT PLAN

MPSERS provides retirement, survivor and disability benefits to public school employees. Eligibility and benefit provisions are governed under Public Act 136 of 1945, re-codified and currently operating under the provisions of Public Act 300 of 1980, as amended.

MPSERS issues a publicly available financial report that includes financial statements and required supplementary information.

The annual report may be obtained by calling (517) 322-5103 or by writing to:

<p>Department of Management and Budget Office of Retirement Systems P.O. Box 30673 Lansing, Michigan 48909-8103</p>
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WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM-DEFINED BENEFIT PLAN (CONTINUED)

The School District is required by state statute to contribute 16.34% of covered payroll from July 01 through September 30, 2006 and 17.74% from October 01, 2006 through June 30, 2007. Contributions to MPSERS are determined on an actuarial basis using the entry age normal actuarial cost method. Contribution requirements of plan members including the School District are established and may be amended only by state statute.

The School District's contributions to MPSERS for the year ending June 30, 2007, 2006, and 2005, were \$299,442, \$259,723, and \$225,622, respectively.

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9%.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM-DEFINED BENEFIT PLAN (CONTINUED)

Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989, contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. Contributions collected and remitted by the School District on behalf of MIP members for the years ending June 30, 2007, 2006, and 2005 were \$59,714, \$56,011, and \$52,203 respectively, equal to the required contributions for the year.

NOTE 11 - POST-EMPLOYMENT BENEFITS

In addition to the pension benefits, MPSERS provides comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension of the retiree. The portion provided by MPSERS is factored into the pension contribution rate.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 12 - RELATED PARTY TRANSACTIONS

Related parties exist when there is a relationship that offers the potential for transactions at less than arm's length, favorable treatment, or the ability to influence the outcome of events differently from that which might result in the absence of that relationship.

Financial statements must include disclosure of material related party transactions, other than compensation arrangements, expense allowances and similar items in the ordinary course of business.

However, disclosure of transactions that are eliminated in the preparation of combined financial statements is not required in those statements.

On this basis, there were no related party transactions reported in the financial statements.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 13 – SUBSEQUENT EVENTS

Subsequent events have a material effect on the financial statements which requires adjustment or disclosure. They relate to events that provide additional evidence with respect to conditions that existed at the date of the balance sheet and events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date.

At fiscal year ended June 30, 2007, there were no subsequent events that would have a significant affect on the District's operations.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

The District participates in numerous state and federal grant programs which are governed by various rules and regulations of the grantor agencies.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2007

NOTE 14 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of money received may be required and the collectibility of any related receivable at June 30, 2007 may be impaired.

In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

REQUIRED SUPPLEMENTAL INFORMATION

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

YEAR ENDED JUNE 30, 2007

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL
<u>REVENUE</u>			
Local Sources	\$ 1,892,059	\$ 1,876,861	\$ 1,851,919
State Sources	416,684	239,696	304,068
Federal Sources	1,155,422	1,108,147	1,108,206
Interdistrict and Other Sources	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE	\$ 3,464,165	\$ 3,224,704	\$ 3,264,193
<u>EXPENDITURES - CURRENT</u>			
Instruction :			
Basic Programs	1,620,562	1,658,568	1,627,544
Added Needs	473,178	490,549	489,422
Supporting Services :			
Pupil	114,234	100,364	100,364
Instructional Staff	56,028	46,277	46,277
General Administration	204,943	185,824	185,292
School Administration	124,161	129,849	129,849
Business Services	73,101	59,057	60,163
Computer Services	43,960	43,930	43,930
Operation and Maintenance	375,038	362,381	361,145
Transportation	161,575	150,836	150,836
Other Supporting Services	<u>23,010</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	\$ 3,269,790	\$ 3,227,635	\$ 3,194,822
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfers In	-	78,181	78,181
Operating Transfers Out	36,767	(161,039)	(162,626)
NET CHANGE IN FUND BALANCE	157,608	(85,789)	(15,074)
FUND BALANCE - BEGINNING OF YEAR	<u>614,707</u>	<u>614,707</u>	<u>614,707</u>
FUND BALANCE - END OF YEAR	<u>\$ 772,315</u>	<u>\$ 528,918</u>	<u>\$ 599,633</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE – FOOD SERVICE

YEAR ENDED JUNE 30, 2007

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL
<u>REVENUE</u>			
Local Sources	\$ 28,925	\$ 31,667	\$ 30,136
State Sources	8,200	15,845	12,642
Federal Sources	65,000	64,793	74,953
Miscellaneous	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL REVENUE	\$ 102,125	\$ 112,305	\$ 117,731
 <u>EXPENDITURES - CURRENT</u>			
Nonprofessional Salaries	-	56,986	56,986
Insurance	-	42,379	42,379
FICA/Retirement	-	15,972	15,972
Purchased Services	-	1,185	1,332
Supplies and Materials	58,750	58,621	66,500
Capital Outlay	2,000	-	-
Other	2,350	621	786
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	\$ 63,100	\$ 175,763	\$ 183,955
 <u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfers In	-	75,834	75,834
Operating Transfers Out	-	-	-
 NET CHANGE IN FUND BALANCE	39,025	12,376	9,610
 FUND BALANCE - BEGINNING OF YEAR	20,487	20,487	20,487
	<hr/>	<hr/>	<hr/>
FUND BALANCE - END OF YEAR	\$ 59,512	\$ 32,863	\$ 30,097
	<hr/>	<hr/>	<hr/>

The notes to the financial statements are an integral part of this report.

OTHER SUPPLEMENTAL INFORMATION

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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OTHER SUPPLEMENTAL INFORMATION

COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS

JUNE 30, 2007

	<u>Athletic Fund</u>	<u>Nimrod Mania Fund</u>	<u>Debt Service Energy Conservation Improvement Bonds</u>
<u>ASSETS</u>			
Cash and Investments (Note 3)	\$ 5,239	\$ 70,296	\$ -
Accounts Receivable	-	-	-
Grants Receivable	-	-	-
Inventory	-	34,008	-
Due from Other Funds	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 5,239</u>	<u>\$ 104,304</u>	<u>\$ -</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Accounts Payable	-	-	-
Accrued Sales Tax	-	342	-
Due to Other Funds	-	29,158	-
	<hr/>	<hr/>	<hr/>
Total Liabilities	-	29,500	-
 <u>Fund Balances</u>			
Reserved for Athletics	5,239	-	-
Reserved for Debt Service	-	-	-
Reserved for Capital Projects	-	-	-
Reserved for Special Programs	-	74,804	-
Unreserved and Undesignated	-	-	-
	<hr/>	<hr/>	<hr/>
Total Fund Balances	5,239	74,804	-
 TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,239</u>	<u>\$ 104,304</u>	<u>\$ -</u>

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

OTHER SUPPLEMENTAL INFORMATION

COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS

JUNE 30, 2007

<u>Capital Projects Boundless Playground</u>	<u>Capital Projects Building and Site</u>	<u>Capital Projects LVD Projects</u>	<u>Total</u>
\$ -	\$ -	\$ 67,509	\$ 143,044
-	-	7,354	7,354
-	-	-	-
-	-	-	34,008
-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,863</u>	<u>\$ 184,406</u>
-	-	-	-
-	-	-	342
-	-	-	29,158
-	-	-	29,500
-	-	-	5,239
-	-	-	-
-	-	74,863	74,863
-	-	-	74,804
-	-	-	-
-	-	74,863	154,906
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,863</u>	<u>\$ 184,406</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

OTHER SUPPLEMENTAL INFORMATION

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - NON-MAJOR GOVERNMENTAL FUNDS**

JUNE 30, 2007

	<u>Athletic Fund</u>	<u>Nimrod Mania Fund</u>	<u>Debt Service Energy Conservation Improvement Bonds</u>
<u>Revenue</u>			
Local Revenue	\$ 13,890	\$ 67,910	\$ -
State Revenue	-	-	-
Federal Revenue	-	-	-
Interdistrict and Other Revenue	-	-	-
Miscellaneous	-	-	-
	<hr/>	<hr/>	<hr/>
Total Revenue	\$ 13,890	\$ 67,910	\$ -
<u>Expenditures</u>			
Current:			
Food Service	-	-	-
Athletics	73,555	-	-
Retail Sales	-	116,308	-
Debt Service			
Principal	-	-	26,667
Interest and Fees	-	-	-
Other Costs	-	-	100
Special Projects	-	6,977	-
Capital Outlay	-	-	-
	<hr/>	<hr/>	<hr/>
Total Expenditures	\$ 73,555	\$ 123,285	\$ 26,767
Excess (Deficiency) of Revenues Over Expenditures	(59,665)	(55,375)	(26,767)
<u>Other Financing Sources (Uses)</u>			
Unrealized gains (losses)	-	-	-
Operating transfers in	60,025	-	26,767
Operating transfers out	-	-	-
	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	60,025	-	26,767
Net Change in Fund Balances	360	(55,375)	-
FUND BALANCE - BEGINNING OF YEAR	4,879	130,179	-
	<hr/>	<hr/>	<hr/>
FUND BALANCE - END OF YEAR	\$ 5,239	\$ 74,804	\$ -
	<hr/>	<hr/>	<hr/>

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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OTHER SUPPLEMENTAL INFORMATION

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES NON-MAJOR GOVERNMENTAL FUNDS**

JUNE 30, 2007

Capital Projects Boundless Playground	Capital Projects Building and Site Fund	Capital Projects LVD Projects	Total
\$ -	\$ -	\$ 87,328	\$ 169,128
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
\$ -	\$ -	\$ 87,328	\$ 169,128
-	-	-	-
-	-	-	73,555
-	-	-	116,308
-	-	-	-
-	-	-	26,667
-	-	-	-
-	-	140	240
-	-	-	6,977
-	-	30,121	30,121
\$ -	\$ -	\$ 30,261	\$ 253,868
-	-	57,067	(84,740)
-	-	-	-
-	-	-	86,792
-	-	(78,181)	(78,181)
-	-	(78,181)	8,611
-	-	(21,114)	(76,129)
-	-	95,977	231,035
\$ -	\$ -	\$ 74,863	\$ 154,906

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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ALL SPECIAL REVENUE FUNDS – COMBINING BALANCE SHEET

JUNE 30, 2007

<u>ASSETS</u>	<u>FOOD SERVICES FUND</u>	<u>ATHLETIC ACTIVITY FUND</u>	<u>NIMROD MANIA FUND</u>	<u>TOTAL</u>
Cash and Deposits	\$ 12,941	\$ 5,239	\$ 70,296	\$ 88,476
Accounts Receivable - State	1,217	-	-	1,217
Accounts Receivable - Other	475	-	-	475
Inventory	3,163	-	34,008	37,171
Due From Other Funds	42,934	-	-	42,934
TOTAL ASSETS	<u><u>\$ 60,730</u></u>	<u><u>\$ 5,239</u></u>	<u><u>\$104,304</u></u>	<u><u>\$170,273</u></u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>LIABILITIES</u>				
Accrued Sales Tax	-	-	342	342
Due to Other Funds	-	-	29,158	29,158
Due to State of Michigan	30,633	-	-	30,633
TOTAL LIABILITIES	<u><u>\$ 30,633</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 29,500</u></u>	<u><u>\$ 60,133</u></u>
<u>FUND EQUITY</u>				
Fund Balance - Reserved	30,097	5,239	74,804	110,140
TOTAL FUND EQUITY	<u><u>30,097</u></u>	<u><u>5,239</u></u>	<u><u>74,804</u></u>	<u><u>110,140</u></u>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 60,730</u></u>	<u><u>\$ 5,239</u></u>	<u><u>\$104,304</u></u>	<u><u>\$170,273</u></u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**ALL SPECIAL REVENUE FUNDS - COMBINING SUPPLEMENTAL SCHEDULE OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

FISCAL YEAR ENDED JUNE 30, 2007

	FOOD SERVICES FUND	ATHLETIC ACTIVITY FUND	NIMROD MANIA FUND	TOTAL
<u>REVENUES</u>				
<u>LOCAL SOURCES</u>				
Food Sales	\$ 27,808	\$ -	\$ -	\$ 27,808
Admissions and Other	1,168	13,890	65,683	80,741
Interest	1,160	-	2,227	3,387
 STATE SOURCES				
Restricted Grants	12,642	-	-	12,642
 FEDERAL SOURCES				
Restricted Grants - Received Through the State	74,953	-	-	74,953
 TOTAL REVENUES	\$ 117,731	\$ 13,890	\$ 67,910	\$ 199,531
 <u>OTHER FINANCING SOURCES</u>				
<u>FUND MODIFICATIONS :</u>				
Transfer From General Fund	75,834	60,025	-	135,859
 TOTAL REVENUES AND OTHER FINANCING SOURCES	193,565	73,915	67,910	335,390
 <u>EXPENDITURES</u>				
Professional Salaries	-	22,127	-	22,127
Nonprofessional Salaries	56,986	10,291	26,302	67,277
Insurance	42,379	-	-	42,379
FICA/Retirement	15,972	8,173	2,856	24,145
Purchased Services	1,332	18,976	51,799	20,308
Supplies and Materials	66,500	7,889	31,446	74,389
Capital Outlay	-	-	-	-
Other	786	6,099	3,905	10,790
Program Support	-	-	6,977	6,977
 TOTAL EXPENDITURES	\$ 183,955	\$ 73,555	\$ 123,285	\$ 380,795
 Excess of Revenues and Other Financing Sources Over (Under) Expenditures	9,610	360	(55,375)	(45,405)
 FUND BALANCE, JULY 1	20,487	4,879	130,179	155,545
 FUND BALANCE, JUNE 30	\$ 30,097	\$ 5,239	\$ 74,804	\$ 110,140

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

ALL DEBT RETIRMENT FUNDS - COMBINING BALANCE SHEET

JUNE 30, 2007

	BUILDING AND SITE FUND	ENERGY CONSERVATION IMPROVEMENT BONDS FUND	TOTAL
<u>ASSETS</u>			
Cash and Deposits	\$ 109,808	\$ -	\$ 109,808
Delinquent Taxes Receivable	3,298	-	3,298
TOTAL ASSETS	<u>\$ 113,106</u>	<u>\$ -</u>	<u>\$ 113,106</u>
 <u>FUND EQUITY</u>			
Fund Balance, Reserved	113,106	-	113,106
TOTAL FUND EQUITY	<u>\$ 113,106</u>	<u>\$ -</u>	<u>\$ 113,106</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**ALL DEBT RETIRMENT FUNDS - COMBINING SUPPLEMENTAL SCHEDULE OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

FISCAL YEAR ENDED JUNE 30, 2007

	BUILDING AND SITE FUND	ENERGY CONSERVATION IMPROVEMENT BONDS FUND	TOTAL
<u>REVENUES</u>			
Property Taxes	\$ 521,654	\$ -	\$ 521,654
Interest & Penalties on Taxes	2,886	-	2,886
Other Taxes	4,976	-	4,976
Interest on Investments	10,823	-	10,823
Other Revenue	3,882	-	3,882
TOTAL REVENUES	\$ 544,221	\$ -	\$ 544,221
 <u>EXPENDITURES</u>			
Principal	5,530,000	26,667	5,556,667
Interest	341,143	-	341,143
Other	1,944	100	2,044
TOTAL EXPENDITURES	\$ 5,873,087	\$ 26,767	\$ 5,899,854
 Excess of Revenues Over (Under) Expenditures	 (5,328,866)	 (26,767)	 (5,355,633)
 <u>OTHER FINANCING SOURCES (USES)</u>			
Bond Proceeds	5,480,000		5,480,000
Cost of Issuance - Refunding Bonds	(170,000)		(170,000)
Transfer In - General Fund	-	26,767	26,767
TOTAL OTHER FINANCING SOURCES (USES)	\$ 5,310,000	\$ 26,767	\$ 5,336,767
 Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	 (18,866)	 -	 (18,866)
 FUND BALANCE, JULY 1	 131,972	 -	 131,972

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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ALL CAPITAL PROJECTS FUNDS - COMBINING BALANCE SHEET

JUNE 30, 2007

	BUILDING AND SITE FUND	BOUNDLESS PLAYGROUND FUND	LVD PROJECTS FUND	TOTAL
<u>ASSETS</u>				
Cash and Deposits	\$ -	\$ -	\$ 67,509	\$ 67,509
Accounts Receivable	-	-	7,354	7,354
Grants Receivable	-	-	-	-
Due From Other Funds	-	-	-	-
TOTAL ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,863</u>	<u>\$ 74,863</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>LIABILITIES</u>				
Accounts Payable	-	-	-	-
Due To Other Funds	-	-	-	-
TOTAL LIABILITIES	-	-	-	-
<u>FUND EQUITY</u>				
Fund Balance, Reserved	-	-	74,863	74,863
TOTAL FUND EQUITY	-	-	74,863	74,863
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,863</u>	<u>\$ 74,863</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**ALL CAPITAL PROJECTS FUNDS - COMBINING SUPPLEMENTAL SCHEDULE OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

FISCAL YEAR ENDED JUNE 30, 2007

	BUILDING AND SITE FUND	BOUNDLESS PLAYGROUND FUND	LVD PROJECTS FUND	TOTAL
<u>REVENUES</u>				
Grant Income	\$ -	\$ -	\$ 86,582	\$ 86,582
Interest	-	-	746	746
Miscellaneous	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	\$ -	\$ -	\$ 87,328	\$ 87,328
<u>EXPENDITURES</u>				
Capital Outlay	-	-	30,121	30,121
Miscellaneous	-	-	140	140
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	\$ -	\$ -	\$ 30,261	\$ 30,261
Excess of Revenues Over (Under) Expenditures	-	-	57,067	57,067
<u>OTHER FINANCING SOURCES (USES)</u>				
Unrealized Gains (Losses)	-	-	-	-
Transfer to Other Funds	-	-	(78,181)	(78,181)
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	\$ -	\$ -	\$ (78,181)	\$ (78,181)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	-	-	(21,114)	(21,114)
FUND BALANCE, JULY 1	<hr/>	<hr/>	<hr/>	<hr/>
FUND BALANCE, JUNE 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 74,863</u></u>	<u><u>\$ 74,863</u></u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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GENERAL FUND - COMPARATIVE BALANCE SHEET

JUNE 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash and Deposits	\$ 829,268	\$ 800,891
Prepaid Expenses	10,985	-
Taxes Receivable	6,678	8,325
Accounts Receivable :		
Federal		-
State	20,676	77,254
Other	-	-
Inventory	304	451
Due From Other Funds	<u>29,158</u>	<u>46,500</u>
TOTAL ASSETS	<u>\$ 897,069</u>	<u>\$ 933,421</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Accrued Benefits	94,940	82,350
Accounts Payable	-	29,000
Salaries Payable	159,562	147,059
Deferred Revenue	-	5,540
Due To Other Funds	<u>42,934</u>	<u>54,765</u>
TOTAL LIABILITIES	297,436	318,714
 <u>FUND EQUITY</u>		
Fund Balance, Unreserved & Undesignated	<u>599,633</u>	<u>614,707</u>
TOTAL FUND EQUITY	599,633	614,707
 TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 897,069</u>	<u>\$ 933,421</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

GENERAL FUND - SUPPLEMENTAL SCHEDULE OF REVENUES – ACTUAL COMPARED TO BUDGET

FISCAL YEAR ENDED JUNE 30, 2007

(With Comparative Totals for Fiscal Year Ended June 30, 2006)

	FISCAL YEAR ENDED JUNE 30, 2007			FISCAL YEAR ENDED 6/30/06
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
<u>REVENUES</u>				
<u>LOCAL SOURCES</u>				
Current Tax Levy	\$ 1,698,251	\$ 1,695,275	2,976	1,625,086
Other Taxes/PILT/CFR	16,195	19,712	(3,517)	58,871
Penalties and Interest on Taxes	8,677	8,644	33	6,647
Interest Income	57,993	56,155	1,838	35,932
Other Local Revenue	70,803	97,075	(26,272)	87,573
TOTAL REVENUES FROM LOCAL SOURCES	\$ 1,851,919	\$ 1,876,861	\$ (24,942)	\$1,814,109
<u>STATE SOURCES</u>				
	-			
State School Aid	165,758	100,276	65,482	286,261
Special Education	62,018	63,123	(1,105)	66,765
At Risk	73,530	73,535	(5)	68,961
Middle School Math/Science	2,762	2,762	-	2,762
TOTAL REVENUES FROM STATE SOURCES	304,068	239,696	64,372	421,987
<u>FEDERAL SOURCES</u>				
Public Law 81-874				
School Assistance	810,678	810,678	-	682,924
Title I	46,987	46,928	59	47,022
Title II A	11,200	11,200	-	11,228
Title II D	482	482	-	877
Title V	879	879	-	1,793
Title VI REAP	23,075	23,075	-	20,857
CIMS Grant	4,000	4,000	-	-
Reading First Grant	130,000	130,000	-	112,500
Schools and Roads Grant	80,905	80,905	-	97,489
TOTAL REVENUES FROM FEDERAL SOURCES	1,108,206	1,108,147	59	974,690
TOTAL REVENUES	\$ 3,264,193	\$ 3,224,704	\$ 39,489	\$3,210,786

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**GENERAL FUND - SUPPLEMENTAL SCHEDULE OF REVENUES – ACTUAL COMPARED TO
BUDGET
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2007
(With Comparative Totals for Fiscal Year Ended June 30, 2006)

	FISCAL YEAR ENDED JUNE 30, 2007			FISCAL YEAR ENDED 6/30/06
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
OTHER FINANCING SOURCES				
Payments From Other				
Governmental Units :				
Federal Sources	\$ -	\$ -	\$ -	\$ -
State Sources	-	-	-	33,237
Other Sources	-	-	-	-
Transfers from Other Funds	<u>78,181</u>	<u>78,181</u>	<u>-</u>	<u>-</u>
 TOTAL OTHER FINANCING SOURCES	 <u>78,181</u>	 <u>78,181</u>	 <u>-</u>	 <u>33,237</u>
 TOTAL REVENUES AND OTHER FINANCING SOURCES	 <u><u>\$ 3,342,374</u></u>	 <u><u>\$ 3,302,885</u></u>	 <u><u>\$ 39,489</u></u>	 <u><u>\$3,244,023</u></u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT

GENERAL FUND - SUPPLEMENTAL SCHEDULE OF EXPENDITURES – ACTUAL COMPARED TO BUDGET

FISCAL YEAR ENDED JUNE 30, 2007
(With Comparative Totals for Fiscal Year Ended June 30, 2006)

<u>INSTRUCTION</u>	<u>FISCAL YEAR ENDED JUNE 30, 2007</u>			<u>FISCAL YEAR ENDED 06/30/06</u>
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>	
BASIC PROGRAMS				
<u>Elementary</u>				
Professional Salaries	\$ 420,928	\$ -	\$ -	\$ 368,890
Nonprofessional Salaries	15,151	-	-	18,772
Insurance	144,477	-	-	149,717
FICA/Retirement	125,659	-	-	121,367
Other Benefits	853	-	-	458
Purchased Services	9,251	-	-	29,558
Supplies and Materials	59,763	-	-	55,165
Capital Outlay	6,006	-	-	-
Other	4,333	-	-	772
Total Elementary	786,421	802,272	15,851	744,699
<u>High School</u>				
Professional Salaries	\$ 523,132	\$ -	\$ -	\$ 493,029
Insurance	129,122	-	-	128,142
FICA/Retirement	140,127	-	-	125,501
Other Benefits	868	-	-	469
Purchased Services	13,921	-	-	20,906
Supplies and Materials	33,250	-	-	33,161
Capital Outlay	-	-	-	-
Other	703	-	-	1,335
Total High School	841,123	856,296	15,173	802,543
TOTAL BASIC PROGRAMS	\$ 1,627,544	\$ 1,658,568	\$ 31,024	\$1,547,242
ADDED NEEDS				
<u>Special Education</u>				
Professional Salaries	\$ 99,605	\$ -	\$ -	\$ 92,364
Nonprofessional Salaries	29,262	-	-	28,645
Insurance	47,997	-	-	44,284
FICA/Retirement	32,602	-	-	29,014
Other Benefits	112	-	-	148
Purchased Services	110	-	-	129
Supplies and Materials	8,998	-	-	4,240
Capital Outlay	-	-	-	-
Other	1,275	-	-	359
Total Special Education	\$ 219,961	\$ 221,088	\$ 1,127	\$ 199,183

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**GENERAL FUND - SUPPLEMENTAL SCHEDULE OF EXPENDITURES – ACTUAL COMPARED
TO BUDGET
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2007
(With Comparative Totals for Fiscal Year Ended June 30, 2006)

INSTRUCTION (Continued)	FISCAL YEAR ENDED JUNE 30, 2007			FISCAL YEAR ENDED 06/30/06
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
Added Needs (Continued)				
<u>At Risk Program</u>				
Professional Salaries	\$ 53,695	\$ -	\$ -	\$ 63,975
Insurance	18,269			18,731
FICA/Retirement	13,816	-	-	15,313
Total At Risk Program	85,780	85,780	-	98,019
<u>Compensatory Education</u>				
<u>Title I</u>				
Professional Salaries	\$ 8,140	\$ -	\$ -	\$ 30,257
Nonprofessional Salaries	19,686			10,315
Insurance	14,312	-	-	11,691
FICA/Retirement	6,083			10,463
Purchased Services	2,453	-	-	735
Supplies and Materials	3,007			8,167
Other	-	-	-	3,945
Total Compensatory Education	53,681	53,681	-	75,573
<u>Reading First Program</u>				
Professional Salaries	\$ 52,047	\$ -	\$ -	\$ 56,060
Nonprofessional Salaries	2,721		-	-
Insurance	15,148	-	-	11,431
FICA/Retirement	16,271			10,845
Purchased Services	8,999	-	-	400
Supplies and Materials	16,887			27,767
Capital Outlay	3,047			-
Other	14,880	-	-	6,586
Total Reading First Program	130,000	130,000	-	113,089
 TOTAL ADDED NEEDS	489,422	490,549	1,127	485,864
 TOTAL INSTRUCTION	\$ 2,116,966	\$ 2,149,117	\$ 32,151	\$2,033,106

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**GENERAL FUND -SUPPLEMENTAL SCHEDULE OF EXPENDITURES – ACTUAL COMPARED
TO BUDGET
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2007
(With Comparative Totals for Fiscal Year Ended June 30, 2006)

	FISCAL YEAR ENDED JUNE 30, 2007			FISCAL YEAR ENDED 06/30/06
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
<u>SUPPORTING SERVICES</u>				
<u>STUDENT SERVICES</u>				
<u>Guidance</u>				
Professional Salaries	\$ 45,620	\$ -	\$ -	\$ 38,078
Insurance	8,236			8,319
FICA/Retirement	12,054	-	-	9,838
Purchased Services	402			470
Supplies and Materials	860			210
Other	202	-	-	37
Total Guidance	\$ 67,374	\$ 67,374	\$ -	\$ 56,952
<u>Health</u>				
Professional Salaries	\$ 13,999	\$ -	\$ -	\$ 17,406
Insurance	8,175			9,733
FICA/Retirement	8,683	-	-	3,755
Other Benefits	178			-
Purchased Services	1,194	-	-	492
Supplies and Materials	367			357
Other	394	-	-	1,240
Total Health	32,990	32,990	-	32,983
TOTAL STUDENT SERVICES	\$ 100,364	\$ 100,364	\$ -	\$ 89,935
<u>INSTRUCTIONAL STAFF</u>				
<u>Library</u>				
Professional Salaries	\$ 9,572	\$ -	\$ -	\$ 11,042
Nonprofessional Salaries	15,997			16,480
Insurance	10,484	-	-	10,091
FICA/Retirement	6,455			6,631
Other Benefits	237	-	-	347
Purchased Services	1,774			5,324
Supplies and Materials	1,604			1,323
Other	154	-	-	-
Total Library	46,277	46,277	-	51,238
TOTAL INSTRUCTIONAL STAFF	\$ 46,277	\$ 46,277	\$ -	\$ 51,238

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**GENERAL FUND - SUPPLEMENTAL SCHEDULE OF EXPENDITURES – ACTUAL COMPARED
TO BUDGET
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2007
(With Comparative Totals for Fiscal Year Ended June 30, 2006)

SUPPORTING SERVICES (Continued)	FISCAL YEAR ENDED JUNE 30, 2007			FISCAL YEAR ENDED 06/30/06
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
GENERAL ADMINISTRATION				
<u>Board of Education</u>				
Nonprofessional Salaries	\$ 3,660	\$ -	\$ -	\$ 2,910
Insurance	-			1,578
Purchased Services	27,635			39,557
Other	2,928	-	-	3,757
Total Board of Education	\$ 34,223	\$ 34,254	\$ 31	\$ 47,802
<u>Executive Administration</u>				
Professional Salaries	\$ 41,669	\$ -	\$ -	\$ 40,653
Nonprofessional Salaries	48,084			85,578
Insurance	19,796	-	-	24,125
FICA/Retirement	22,676			31,192
Other Benefits	2,516	-	-	4,010
Purchased Services	2,945			3,972
Supplies and Materials	4,613	-	-	4,233
Capital Outlay	-			-
Other	8,770	-	-	8,188
Total Executive Administration	151,069	151,570	501	201,951
 TOTAL GENERAL ADMINISTRATION	 \$ 185,292	 \$ 185,824	 \$ 532	 \$ 249,753
SCHOOL ADMINISTRATION				
<u>Office of the Principal</u>				
Professional Salaries	\$ 41,669	\$ -	\$ -	\$ 40,652
Nonprofessional Salaries	32,724			30,486
Insurance	19,702	-	-	13,989
FICA/Retirement	19,561			17,547
Other Benefits	1,628			1,459
Purchased Services	402	-	-	3,008
Supplies and Materials	3,483			2,978
Capital Outlay	-			-
Other	10,680	-	-	3,254
Total Office of the Principal	129,849	129,849	-	113,373
 TOTAL SCHOOL ADMINISTRATION	 \$ 129,849	 \$ 129,849	 \$ -	 \$ 113,373

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**GENERAL FUND - SUPPLEMENTAL SCHEDULE OF EXPENDITURES – ACTUAL COMPARED
TO BUDGET
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2007
(With Comparative Totals for Fiscal Year Ended June 30, 2006)

SUPPORTING SERVICES (Continued)	FISCAL YEAR ENDED JUNE 30, 2007			FISCAL YEAR ENDED 06/30/06
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
BUSINESS SERVICES				
<u>Fiscal Services</u>				
Nonprofessional Salaries	\$ 40,308	\$ -	\$ -	\$ -
Insurance	6,909			-
FICA/Retirement	10,089	-	-	-
Tax Judgements/Chargebacks	2,857			12,680
TOTAL BUSINESS SERVICES	\$ 60,163	\$ 59,057	\$ (1,106)	\$ 12,680
 COMPUTER SERVICES				
Professional Salaries	\$ 4,050	\$ -	\$ -	\$ 3,948
FICA/Retirement	1,022			941
Purchased Services	28,083	-	-	11,271
Supplies and Materials	9,328			18,162
Capital Outlay	1,447	-	-	-
TOTAL COMPUTER SERVICES	43,930	43,930	-	34,322
 OPERATION AND MAINTENANCE				
Nonprofessional Salaries	\$ 97,933	\$ -	\$ -	\$ 100,720
Insurance	66,995			49,830
FICA/Retirement	24,514	-	-	23,864
Other Benefits	1,043			1,512
Purchased Services	150,040			143,930
Supplies and Materials	14,550	-	-	12,494
Capital Outlay	-			2,679
Other	6,070	-	-	3,682
TOTAL OPERATION AND MAINTENANCE	\$ 361,145	\$ 362,381	\$ 1,236	\$ 338,711
 PUPIL TRANSPORTATION				
Purchased Services	150,836	-	-	159,393
TOTAL PUPIL TRANSPORTATION	150,836	150,836	-	159,393
 TOTAL SUPPORTING SERVICES	\$ 1,077,856	\$ 1,078,518	\$ 662	\$1,049,405
 TOTAL EXPENDITURES	\$ 3,194,822	\$ 3,227,635	\$ 32,813	\$3,082,511

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**GENERAL FUND - SUPPLEMENTAL SCHEDULE OF EXPENDITURES – ACTUAL COMPARED
TO BUDGET
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2007
(With Comparative Totals for Fiscal Year Ended June 30, 2006)

	FISCAL YEAR ENDED JUNE 30, 2007			FISCAL YEAR ENDED 06/30/06
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
<u>OTHER FINANCING USES</u>				
<u>Fund Modifications</u>				
Transfer To Food Service Fund	\$ 75,834	\$ 75,834	\$ -	\$ 54,699
Transfer To Athletic Fund	60,025	58,438	(1,587)	48,467
Transfer To Debt Retirement Fund	26,767	26,767	-	26,767
Transfer To Capital Projects Fund	-	-	-	734
Total Fund Modifications	162,626	161,039	(1,587)	130,667
 TOTAL OTHER FINANCING USES	 \$ 162,626	 \$ 161,039	 \$ (1,587)	 \$ 130,667
 TOTAL EXPENDITURES AND OTHER FINANCING USES	 \$ 3,357,448	 \$ 3,388,674	 \$ 31,226	 \$3,213,178

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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SPECIAL REVENUE FUND – FOOD SERVICE FUND – COMPARATIVE BALANCE SHEET

JUNE 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash and Deposits	\$ 12,941	\$ 7,122
Accounts Receivable - State	1,217	1,722
Accounts Receivable	475	-
Inventory	3,163	2,942
Due From Other Funds	<u>42,934</u>	<u>54,765</u>
TOTAL ASSETS	<u>\$ 60,730</u>	<u>\$ 66,551</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Accrued Sales Tax	-	114
Due to State of Michigan	<u>30,633</u>	<u>45,950</u>
TOTAL LIABILITIES	30,633	46,064
<u>FUND EQUITY</u>		
Fund Balance - Reserved	<u>30,097</u>	<u>20,487</u>
TOTAL FUND EQUITY	30,097	20,487
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 60,730</u>	<u>\$ 66,551</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**SPECIAL REVENUE FUND – FOOD SERVICE - STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE - ACTUAL COMPARED TO BUDGET**

FISCAL YEAR ENDED JUNE 30, 2007

(With Comparative Totals for Fiscal Year Ended June 30, 2006)

	FISCAL YEAR ENDED JUNE 30, 2007			FISCAL YEAR ENDED 6/30/06
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
<u>REVENUES</u>				
<u>LOCAL SOURCES</u>				
Student Breakfast / Lunches	\$ 23,835	\$ 23,601	\$ -	\$ 22,696
Adult Lunches	3,973	3,973	-	3,532
Interest	1,160	1,010	150	997
Other	1,168	3,083	(1,915)	652
TOTAL LOCAL SOURCES	30,136	31,667	(1,531)	27,877
<u>STATE SOURCES</u>				
School Lunch Program	12,642	15,845	(3,203)	17,445
<u>FEDERAL SOURCES</u>				
Federal Aid	66,911	64,793	2,118	63,481
USDA Commodities/Bonus	8,042	-	8,042	7,317
TOTAL FEDERAL SOURCES	74,953	64,793	10,160	70,798
TOTAL REVENUES	117,731	112,305	5,426	116,120
<u>OTHER FINANCING SOURCES</u>				
<u>FUND MODIFICATIONS :</u>				
Transfer From General Fund	75,834	75,834	-	54,699
TOTAL REVENUES AND OTHER FINANCING SOURCES	193,565	188,139	5,426	170,819
<u>EXPENDITURES</u>				
Nonprofessional Salaries	56,986			57,557
Insurance	42,379			26,821
FICA/Retirement	15,972			15,165
Purchased Services	1,332			3,671
Supplies and Materials	66,500			61,493
Capital Outlay	-			-
Other	786			404
TOTAL EXPENDITURES	183,955	175,763	(8,192)	165,111
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	9,610	12,376	(2,766)	5,708
FUND BALANCE, JULY 1	20,487			14,779
FUND BALANCE, JUNE 30	\$ 30,097			\$ 20,487

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**SPECIAL REVENUE FUND – ATHLETIC ACTIVITY FUND – COMPARATIVE BALANCE
SHEET**

JUNE 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash and Deposits	<u>\$ 5,239</u>	<u>\$ 4,879</u>
TOTAL ASSETS	<u>\$ 5,239</u>	<u>\$ 4,879</u>
<u>FUND EQUITY</u>		
Fund Balance, Reserved	<u>5,239</u>	<u>4,879</u>
TOTAL FUND EQUITY	<u>\$ 5,239</u>	<u>\$ 4,879</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**SPECIAL REVENUE FUND – ATHLETIC ACTIVITY FUND - STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE - ACTUAL COMPARED TO BUDGET**

FISCAL YEAR ENDED JUNE 30, 2007
(With Comparative Totals for Fiscal Year Ended June 30, 2006)

	FISCAL YEAR ENDED JUNE 30, 2007			FISCAL YEAR ENDED 06/30/06
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
<u>REVENUES</u>				
LOCAL SOURCES				
Admissions	\$ 11,424	\$ 11,424	\$ -	\$ 15,468
Fund Raising	-	-	-	27,443
Donations	2,000	-	2,000	-
Other Revenue	466	416	50	613
TOTAL LOCAL SOURCES	13,890	11,840	2,050	43,524
<u>OTHER FINANCING SOURCES</u>				
Transfer from General Fund	60,025	58,438	1,587	48,467
TOTAL REVENUES AND OTHER FINANCING SOURCES	73,915	70,278	3,637	91,991
<u>EXPENDITURES</u>				
Professional Salaries	22,127			28,970
Nonprofessional Salaries	10,291			6,780
FICA/Retirement	8,173			6,891
Purchased Services	18,976			-
Supplies and Materials	7,889			7,509
Capital Outlay	-			-
Other	6,099			41,733
TOTAL EXPENDITURES	73,555	64,844	(8,711)	91,883
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	360	5,434	(5,074)	108
FUND BALANCE, JULY 1	4,879			4,771
FUND BALANCE, JUNE 30	\$ 5,239			\$ 4,879

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

SPECIAL REVENUE FUND – NIMROD MANIA FUND – COMPARATIVE BALANCE SHEET

JUNE 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash and Deposits	\$ 70,296	\$ 106,226
Inventory	34,008	24,160
Accounts Receivable	-	-
TOTAL ASSETS	<u>\$104,304</u>	<u>\$130,386</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Accrued Sales Tax	342	-
Due to General Fund	<u>29,158</u>	<u>207</u>
TOTAL LIABILITIES	29,500	207
<u>FUND EQUITY</u>		
Fund Balance - Reserved for Special Programs	<u>74,804</u>	<u>130,179</u>
TOTAL FUND EQUITY	74,804	130,179
TOTAL LIABILITIES AND FUND EQUITY	<u>\$104,304</u>	<u>\$130,386</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**SPEICAL REVENUE FUND – NIMROD MANIA FUND - STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE - ACTUAL COMPARED TO BUDGET**

FISCAL YEAR ENDED JUNE 30, 2007
(With Comparative Totals for Fiscal Year Ended June 30, 2006)

	<u>FISCAL YEAR ENDED JUNE 30, 2007</u>			FISCAL YEAR ENDED <u>6/30/06</u>
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE Favorable (Unfavorable)</u>	
<u>REVENUES</u>				
Sales	\$ 65,523	\$ 63,775	\$ 1,748	\$ 86,599
Donations	160	160	-	725
Interest	2,227	205	2,022	2,204
Miscellaneous	-	-	-	2,194
TOTAL REVENUES	\$ 67,910	\$ 64,140	3,770	\$ 91,722
<u>EXPENDITURES</u>				
Nonprofessional Salaries	\$ 26,302	\$ -	\$ -	\$ 7,276
FICA/Retirement	2,856			1,717
Purchased Services	51,799			3,887
Supplies and Materials	31,446			23,398
Other	3,905			4,816
Program Support :				-
Athletics	4,000			7,918
Building and Grounds	1,826			90
Educational	651			9,895
Scholarship	500			-
Fine Arts	-	-		736
Recreation	-	-	-	1,023
TOTAL EXPENDITURES	\$ 123,285	\$ 133,062	\$ 9,777	\$ 60,756
Excess of Revenues Over (Under) Expenditures	(55,375)	(68,922)	13,547	30,966
FUND BALANCE, JULY 1	<u>130,179</u>			<u>99,213</u>
FUND BALANCE, JUNE 30	<u>\$ 74,804</u>			<u>\$ 130,179</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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DEBT RETIRMENT FUND – BUILDING AND SITE - COMPARATIVE BALANCE SHEET

JUNE 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash and Deposits	\$ 109,808	\$ 128,226
Delinquent Taxes Receivable	<u>3,298</u>	<u>3,746</u>
TOTAL ASSETS	<u>\$ 113,106</u>	<u>\$ 131,972</u>
 <u>FUND EQUITY</u>		
Fund Balance, Reserved	<u>113,106</u>	<u>131,972</u>
TOTAL FUND EQUITY	<u>\$ 113,106</u>	<u>\$ 131,972</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**DEBT RETIREMENT FUND – BUILDING AND SITE – COMPARATIVE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**

FISCAL YEAR ENDED JUNE 30, 2007
(With Comparative Totals for Fiscal Year Ended June 30, 2006)

	<u>2007</u>	<u>2006</u>
<u>REVENUES</u>		
Property Taxes	\$ 521,654	\$ 491,914
Interest & Penalties on Taxes	2,886	3,602
Other Taxes	4,976	7,352
Interest on Investments	10,823	8,064
Other Revenue	<u>3,882</u>	<u>-</u>
TOTAL REVENUES	\$ 544,221	\$ 510,932
 <u>EXPENDITURES</u>		
Building and Site Bonds		
Principal	\$ 5,530,000	\$ 190,000
Interest	341,143	314,755
Other	<u>1,944</u>	<u>250</u>
TOTAL EXPENDITURES	\$ 5,873,087	\$ 505,005
 Excess of Revenues and Other Financing Sources Over (Under) Expenditures	 (5,328,866)	 5,927
 OTHER FINANCING SOURCES (USES)		
Bond Proceeds	5,480,000	
Cost of Issuance - Refunding Bonds	(170,000)	

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**DEBT RETIRMENT FUND – ENERGY CONSERVATION IMPROVEMENT BONDS –
COMPARATIVE BALANCE SHEET**

JUNE 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL ASSETS	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
<u>FUND EQUITY</u>		
Fund Balance	<u>-</u>	<u>-</u>
TOTAL FUND EQUITY	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**DEBT RETIRMENT FUND – ENERGY CONSERVATION IMPROVEMENT BONDS -
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**

FISCAL YEAR ENDED JUNE 30, 2007
(With comparative Totals for Fiscal Year Ended June 30, 2006)

	<u>2007</u>	<u>2006</u>
<u>REVENUES</u>	\$ -	\$ -
TOTAL REVENUES	\$ -	\$ -
<u>OTHER FINANCING SOURCES</u>		
Transfer In - General Fund	<u>26,767</u>	<u>26,767</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	26,767	26,767
<u>EXPENDITURES</u>		
Principal	26,667	26,667
Interest	-	-
Other	<u>100</u>	<u>100</u>
TOTAL EXPENDITURES	26,767	26,767
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	-	-
FUND BALANCE, JULY 1	<u>-</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

CAPITAL PROJECTS FUND – BOUNDLESS PLAYGROUND – COMPARATIVE BALANCE SHEET

JUNE 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash and Deposits	\$ -	\$ -
Grants Receivable	-	17,500
	<u>-</u>	<u>17,500</u>
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 17,500</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Due To Other Funds	-	17,500
	<u>-</u>	<u>17,500</u>
TOTAL LIABILITIES	-	17,500
<u>FUND EQUITY</u>		
Fund Balance, Reserved	-	-
	<u>-</u>	<u>-</u>
TOTAL FUND EQUITY	-	-
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ -</u>	<u>\$ 17,500</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**CAPITAL PROJECTS FUND – BOUNDLESS PLAYGROUND - STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE**

FISCAL YEAR ENDED JUNE 30, 2007

(With Comparative Totals for Fiscal Year Ended June 30, 2006)

	<u>2007</u>	<u>2006</u>
<u>REVENUES</u>		
Grant Income	\$ -	\$ 70,000
Interest	-	26
	<hr/>	<hr/>
TOTAL REVENUES	\$ -	\$ 70,026
 <u>EXPENDITURES</u>		
Miscellaneous	-	402
Capital Outlay	-	72,882
	<hr/>	<hr/>
TOTAL EXPENDITURES	-	73,284
 Excess of Revenues Over (Under) Expenditures	 -	 (3,258)
 FUND BALANCE, JULY 1	 -	 3,258
	<hr/>	<hr/>
FUND BALANCE, JUNE 30	\$ -	\$ -
	<hr/> <hr/>	<hr/> <hr/>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

CAPITAL PROJECTS FUND – BUILDING AND SITE – COMPARATIVE BALANCE SHEET

JUNE 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash and Deposits	\$ -	\$ -
Due From Other Funds	-	17,500
	<u>-</u>	<u>17,500</u>
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 17,500</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Accounts Payable	-	-
Due To Other Funds	-	17,500
	<u>-</u>	<u>17,500</u>
TOTAL LIABILITIES	-	17,500
<u>FUND EQUITY</u>		
Fund Balance, Reserved	-	-
	<u>-</u>	<u>-</u>
TOTAL FUND EQUITY	-	-
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ -</u>	<u>\$ 17,500</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**CAPITAL PROJECTS FUND – BUILDING AND SITE – STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE**

FISCAL YEAR ENDED JUNE 30, 2007
(With Comparative Totals for Fiscal Year Ended June 30, 2006)

	<u>2007</u>	<u>2006</u>
<u>REVENUES</u>		
Interest	\$ -	\$ 1,518
Miscellaneous	-	-
	<hr/>	<hr/>
TOTAL REVENUES	\$ -	\$ 1,518
 <u>EXPENDITURES</u>		
Construction	-	1,067
Architectural and Engineering	-	-
Legal and Other	-	-
Furniture/Equipment	-	2,326
Project Management	-	-
Land Improvements	-	-
	<hr/>	<hr/>
TOTAL EXPENDITURES	-	3,393
 Excess of Revenues Over (Under) Expenditures	 -	 (1,875)
 <u>OTHER FINANCING SOURCES (USES)</u>		
Unrealized Gains (Losses)	-	1,141
Transfer In - General Fund	-	734
	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	-	1,875
 Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	 -	 -
 FUND BALANCE, JULY 1	 -	 -
	<hr/>	<hr/>
FUND BALANCE, JUNE 30	\$ -	\$ -
	<hr/> <hr/>	<hr/> <hr/>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

CAPITAL PROJECTS FUND – LVD PROJECTS – COMPARATIVE BLANCE SHEET

JUNE 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash and Deposits	\$ 67,509	\$ 125,432
Accounts Receivable	<u>7,354</u>	<u>945</u>
TOTAL ASSETS	<u>\$ 74,863</u>	<u>\$ 126,377</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Due To Other Funds	-	29,000
Accounts Payable	<u>-</u>	<u>1,400</u>
TOTAL LIABILITIES	-	30,400
 <u>FUND EQUITY</u>		
Fund Balance, Reserved	<u>74,863</u>	<u>95,977</u>
TOTAL FUND EQUITY	74,863	95,977
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 74,863</u>	<u>\$ 126,377</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**CAPITAL PROJECTS FUND – LVD PROJECTS – STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE**

FISCAL YEAR ENDED JUNE 30, 2007
(With Comparative Totals for Fiscal Year Ended June 30, 2006)

	<u>2007</u>	<u>2006</u>
<u>REVENUES</u>		
Grant Income	\$ 86,582	\$ 55,000
Interest	<u>746</u>	<u>668</u>
TOTAL REVENUES	\$ 87,328	\$ 55,668
 <u>EXPENDITURES</u>		
Capital Outlay	30,121	24,773
Other Costs	<u>140</u>	<u>-</u>
TOTAL EXPENDITURES	30,261	24,773
 Excess of Revenues Over (Under) Expenditures	 57,067	 30,895
 OTHER FINANCING SOURCES (USES)		
Operating Transfer Out	(78,181)	-
 Excess of Revenues Over (Under) Expenditures and Other Financing Uses	 (21,114)	 30,895
 FUND BALANCE, JULY 1	 <u>95,977</u>	 <u>65,082</u>
FUND BALANCE, JUNE 30	<u>\$ 74,863</u>	<u>\$ 95,977</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

TRUST AND AGENCY FUND - BALANCE SHEET

JUNE 30, 2007

ASSETS

Cash and Deposits	\$ 65,408
TOTAL ASSETS	\$ 65,408

LIABILITIES AND FUND BALANCE

LIABILITIES

Due To Student Groups and Other	25,095
TOTAL LIABILITIES	25,095

FUND BALANCE

Reserved for Scholarships	40,313
TOTAL FUND BALANCE	40,313

TOTAL LIABILITIES AND FUND BALANCE	\$ 65,408
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The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

SUPPLEMENTAL SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

FISCAL YEAR ENDED JUNE 30, 2007

	JULY 1, 2006	RECEIPTS	DISBURSEMENTS	JUNE 30, 2007
<u>STUDENT ACTIVITIES</u>				
General Activities	\$ 1,918	\$ 3,295	\$ 3,842	\$ 1,371
Class of :				
2006	83	-	83	-
2007	10,201	20,315	30,449	67
2008	4,035	13,012	7,220	9,827
2009	1,443	5,294	2,504	4,233
2010	-	2,911	1,919	992
Student Council	913	2,144	2,684	373
Yearbook	4,226	4,792	6,479	2,539
Varsity Club	-	16,359	16,359	-
Music	-	183	-	183
Pencil Fund	317	-	-	317
Spanish Club	449	-	259	190
HS Girls Basketball Camp	-	6,571	6,210	361
Cheerleaders	243	7,343	6,361	1,225
Drama Club	833	83	275	641
All-Class Reunion	255	-	-	255
Football	-	12,374	12,374	-
Boys Basketball	-	6,514	3,993	2,521
TOTAL STUDENT ACTIVITIES	\$ 24,916	\$ 101,190	\$ 101,011	\$ 25,095
<u>SCHOLARSHIP ACCOUNTS</u>				
Scholarship Accounts	38,775	2,068	1,150	39,693
Band Instrument Fund	614	6	-	620
TOTAL SCHOLARSHIP ACCOUNTS	39,389	2,074	1,150	40,313
TOTALS	\$ 64,305	\$ 103,264	\$ 102,161	\$ 65,408

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

PROPERTY TAX DATA

FOR THE YEAR ENDED JUNE 30, 2007

<u>YEAR LEVIED</u>	<u>LEVY</u>	<u>COLLECTIONS AND ADJUSTMENTS</u>	<u>BALANCE JUNE 30, 2007</u>
<u>GENERAL FUND</u>			
2006-07	\$ 1,698,251	\$ 1,695,276	\$ 2,975
2005-06	1,625,086	1,625,082	4
2004-05	1,485,101	1,484,302	799
2003-04	1,306,175	1,304,241	1,934
2002-03	<u>1,251,879</u>	<u>1,250,913</u>	<u>966</u>
TOTAL GENERAL FUND	\$ 7,366,492	\$ 7,359,814	\$ 6,678
<u>DEBT RETIREMENT FUND</u>			
2006-07	\$ 521,654	\$ 520,344	\$ 1,310
2005-06	491,892	491,840	52
2004-05	473,386	473,002	384
2003-04	463,794	462,489	1,305
2002-03	<u>392,801</u>	<u>392,554</u>	<u>247</u>
TOTAL DEBT RETIREMENT	\$ 2,343,527	\$ 2,340,229	\$ 3,298
TOTAL ALL FUNDS	<u>\$ 9,710,019</u>	<u>\$ 9,700,043</u>	<u>\$ 9,976</u>

The notes to the financial statements are an integral part of this report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Education
Watersmeet Township School District
Watersmeet, Michigan 49969

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information as of the **Watersmeet Township School District**, Watersmeet, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the **Watersmeet Township School District**, Watersmeet, Michigan's basic financial statements, and have issued our report thereon dated October 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Watersmeet Township School District**, Watersmeet, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Watersmeet Township School District**, Watersmeet, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **Watersmeet Township School District**, Watersmeet, Michigan's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the **Watersmeet Township School District**, Watersmeet, Michigan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the **Watersmeet Township School District**, Watersmeet, Michigan's financial statements that is more than inconsequential will not be prevented or detected by the **Watersmeet Township School District**, Watersmeet, Michigan's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the **Watersmeet Township School District**, Watersmeet, Michigan's internal control.

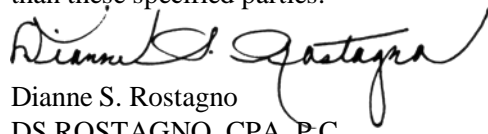
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Watersmeet Township School District**, Watersmeet, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the **Watersmeet Township School District**, Watersmeet, Michigan in a separate letter dated October 15, 2007.

This report is intended solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Dianne S. Rostagno", is written over the printed name and firm name.

Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

October 15, 2007

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Watersmeet Township School District
PO Box 217
Watersmeet, Michigan 49969

Compliance

We have audited the compliance of the **Watersmeet Township School District**, Watersmeet, Michigan, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The **Watersmeet Township School District**, Watersmeet, Michigan's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the **Watersmeet Township School District**, Watersmeet, Michigan's management. Our responsibility is to express an opinion on the **Watersmeet Township School District**, Watersmeet, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Watersmeet Township School District**, Watersmeet, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the **Watersmeet Township School District**, Watersmeet, Michigan's compliance with those requirements.

In our opinion, the **Watersmeet Township School District**, Watersmeet, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the **Watersmeet Township School District**, Watersmeet, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs.

Internal Control Over Compliance (Continued)

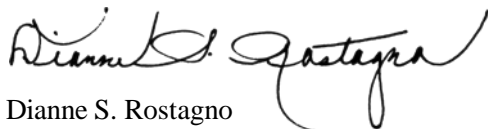
In planning and performing our audit, we considered the **Watersmeet Township School District**, Watersmeet, Michigan's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion of the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the **Watersmeet Township School District**, Watersmeet, Michigan's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities, and it is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Dianne S. Rostagno". The signature is fluid and cursive, with the first name "Dianne" and last name "Rostagno" clearly distinguishable.

Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

October 15, 2007

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE 7/1/2006	(MEMORANDUM ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	ACCRUED (DEFERRED) REVENUE 06/30/2007	ADJUSTMENTS
US DEPT OF EDUCATION								
Direct Programs								
PL 874 Impact Aid *	84.041	\$ 810,678	\$ -	\$ -	\$ 810,678	\$ 810,678	\$ -	\$ -
Rural Education								
Achievement	84.358	23,075	-	-	23,075	23,075	-	-
Total Direct Programs		833,753	-	-	833,753	833,753	-	-
Passed Through MDE								
ESEA Title I								
#071530-0607	84.010	46,987	-	-	46,987	46,987	-	-
Total Title I		46,987	-	-	46,987	46,987	-	-
Title V LEA Allocation								
#070250-0607	84.298	879	-	-	879	879	-	-
Total Title V		879	-	-	879	879	-	-
Title II-A								
Improving Teacher Quality								
#070520-0607	84.367	11,200	-	-	11,200	11,200	-	-
Total Title II-A		\$ 11,200	\$ -	\$ -	\$ 11,200	\$ 11,200	\$ -	\$ -
Handicapped School								
and Preschool								
#070440-0607	84.027	4,000	-	-	4,000	4,000	-	-
Total Handicapped School								
and Preschool		\$ 4,000	\$ -	\$ -	\$ 4,000	\$ 4,000	\$ -	\$ -

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE 7/1/2006	(MEMORANDUM ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	ACCRUED (DEFERRED) REVENUE 6/30/2007	ADJUSTMENTS
US DEPT OF EDUCATION								
<u>Passed through MDE, Cont.</u>								
Title II-D								
Tech Literacy Challenge								
#074290-0607	84.318	\$ 482	\$ -	\$ -	\$ 482	\$ 482	\$ -	\$ -
Total Title II-D		482	-	-	482	482	-	-
Reading First State Grant								
#072930-0607	84.357	130,000	-	-	130,000	130,000	-	-
Total Reading First State Grant		130,000	-	-	130,000	130,000	-	-
Total Passed Through MDE		\$ 193,548	\$ -	\$ -	\$ 193,548	\$ 193,548	\$ -	\$ -
TOTAL US DEPT OF EDUCATION		\$ 1,027,301	\$ -	\$ -	\$ 1,027,301	\$ 1,027,301	\$ -	\$ -

WATERSMEET TOWNSHIP SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE 7/1/2006	(MEMORANDUM ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	ACCRUED (DEFERRED) REVENUE 6/30/2007	ADJUSTMENTS
US DEPT OF AGRICULTURE								
<u>Passed Through MDE</u>								
<u>National School Lunch</u>								
Section 4 Lunches								
#061950	10.555	\$ 805	\$ -	\$ -	\$ 805	\$ 805	\$ -	\$ -
#071950	10.555	6,562	-	-	6,562	6,562	-	-
Subtotal		7,367	-	-	7,367	7,367	-	-
Section 11 Free & Reduced								
#061960	10.555	4,060	-	-	4,060	4,060	-	-
#071960	10.555	33,776	-	-	33,776	33,776	-	-
Subtotal		37,836	-	-	37,836	37,836	-	-
NSL Snacks								
#061980	10.555	163	-	-	163	163	-	-
#071980	10.555	2,118	-	-	2,118	2,118	-	-
Subtotal		2,281	-	-	2,281	2,281	-	-
Total National School Lunch		\$ 47,484	\$ -	\$ -	\$ 47,484	\$ 47,484	\$ -	\$ -
National School Lunch - Breakfast								
#061970	10.553	\$ 2,168	\$ -	\$ -	\$ 2,168	\$ 2,168	\$ -	\$ -
#071970	10.553	17,259	-	-	17,259	17,259	-	-
Total National School Lunch - Breakfast		19,427	-	-	19,427	19,427	-	-
Entitlement Commodities	10.550	7,895	-	-	7,895	7,895	-	-
Bonus Commodities	10.550	147	-	-	147	147	-	-
Total Commodities		8,042	-	-	8,042	8,042	-	-
Total US Dept Agriculture		\$ 74,953	\$ -	\$ -	\$ 74,953	\$ 74,953	\$ -	\$ -

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE 7/1/2006	(MEMORANDUM ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	ACCRUED (DEFERRED) REVENUE 6/30/2007	ADJUSTMENTS
US DEPT OF INTERIOR								
Other Federal Assistance								
Passed Through								
Gogebic County								
Schools & Roads Grant	10.665	\$ 80,905	\$ -	\$ -	\$ 80,905	\$ 80,905	\$ -	\$ -
Total US Dept of Interior		\$ 80,905	\$ -	\$ -	\$ 80,905	\$ 80,905	\$ -	\$ -
TOTAL FEDERAL FINANCIAL ASSISTANCE		\$ 1,183,159	\$ -	\$ -	\$ 1,183,159	\$ 1,183,159	\$ -	\$ -

* Designates major program

Expenditures in this schedule are in agreement with amounts reported in the financial statements and the financial reports.

The amounts reported on the R-7120, "Grants Section Auditor's Report" and/or the Cash Management Reporting System reconcile with this schedule.

The amounts reported on the Recipient Entitlement Balance Report (PAL Report) agree with this schedule for USDA

donated food commodities and are reported in the Cash Receipts column.

Expenditures include spoilage or pilferage.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2007

A. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the **Watermsee Township School District** and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basis financial statements.

B. FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

C.

Major programs were determined by a risk based approach, which includes consideration of current and prior audit expenses, oversight by federal agencies and pass-through entities, and inherent risk of the program in addition to the \$ 300,000 expenditure threshold. The District qualifies as a low risk auditee, under the criteria specified in OMB Circular A-133, Section 530.

D. FOOTNOTES

Please see the financial statement footnotes for the significant accounting policies used in preparing this schedule.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2007

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: *Unqualified*

Internal control over financial reporting:

- | | | | | |
|-------------------------------------|-------|-----|--------------|---------------|
| • Material weakness(es) identified? | _____ | yes | <u> X </u> | no |
| • Significant deficiencies? | _____ | yes | <u> X </u> | none reported |

Noncompliance material to financial statements noted?	_____	yes	<u> X </u>	no
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Federal Awards

Internal control over major programs:

- | | | | | |
|--|-------|-----|--------------|---------------|
| • Material weakness(es) identified? | _____ | yes | <u> X </u> | no |
| • Significant deficiencies identified that are not considered to be material weakness(es)? | _____ | yes | <u> X </u> | none reported |

Type of auditor's report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	_____	yes	<u> X </u>	no
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Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program of Cluster</i>
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84.041	PL874 Impact Aid
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Dollar threshold used to distinguish between A and B programs:

 \$ 300000

Auditee qualified as low-risk auditee?	<u> X </u>	yes	_____	no
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WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

FOR THE YEAR ENDED JUNE 30, 2007

SECTION II - FINANCIAL STATEMENT FINDINGS

There are no matters to be reported.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

FOR THE YEAR ENDED JUNE 30, 2007

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no matters to be reported.

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

Members of the Board of Education
Watersmeet Township School District
Watersmeet, Michigan 49969

In planning and performing the audit of the financial statements of the **Watersmeet Township School District**, we considered the School District's internal control structure to plan the auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. Accordingly, we do not express an opinion on the effectiveness of the **Watersmeet Township School District**, Watersmeet, Michigan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the **Watersmeet Township School District**, Watersmeet, Michigan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the **Watersmeet Township School District's** financial statements that is more than inconsequential will not be prevented or detected by the **Watersmeet Township School District's** internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the **Watersmeet Township School District's** internal control.

During our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. They are divided into three categories: significant deficiencies, material weaknesses, and other matters.

MATERIAL WEAKNESSES

There are no matters to report.

SIGNIFICANT DEFICIENCIES

There are no matters to report.

OTHER MATTERS

BUDGETARY

Problem:

In conjunction with the past several audits, it has been noted that the School District had incurred several expenditures which were in excess of amounts appropriated.

Recommendation:

It was recommended that closer monitoring be done in regard to budgetary appropriations and expenditures.

Resolution:

During the current fiscal year, there were several expenditures which again exceeded budgetary appropriations.

Current Recommendation:

Close monitoring is required to assure that budgetary appropriations will not be exceeded. Provision should be made for year-end adjustments and out-of-period items in the monitoring process.

STUDENT ACTIVITIES

Problem:

In conjunction with the past several audits, we reported to the School District that all records pertaining to the various student activities are reported and maintained by School District office personnel. Since student groups generally lack the knowledge of the amount of earnings, expenditures, and year-end balances in their accounts, there is no method to confirm transactions or balances.

Recommendation:

It was recommended that each student group maintain its own set of accounting records, keeping a running total of all fund-raising revenues, expenses, and ending cash balances.

Resolution:

This has been satisfactorily resolved.

Page Three

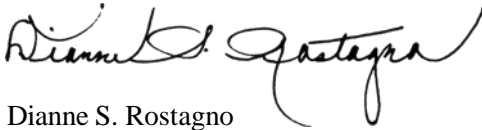
Watersmeet Township School District

This letter does not affect our report dated October 15, 2007 on the financial statements of the **Watersmeet Township School District**. We will review the status of these comments during our next audit engagement. Our comments and recommendations, which have been discussed with appropriate School District officials, are intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, or to assist you in implementing the recommendations.

It has been a pleasure working with the staff and administration of the **Watersmeet Township School District**, and we wish to express our appreciation for their cooperation and assistance during the audit engagement.

This communication is intended solely for the information and use of management, those charged with governance, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Yours very truly,

A handwritten signature in black ink, appearing to read "Dianne S. Rostagno". The signature is fluid and cursive, with a large, stylized initial "D".

Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

October 15, 2007